Consolidated Financial Statements

of the Government of Alberta

Annual Report 2006-2007

Alberta

This is the report to Albertans on **BUDGET 2006** STRENGTHENING TODAY, Securing Tomorrow. It is a permanent public record of ALL the dollars spent and the results achieved by the Government of Alberta for the 2006-07 fiscal year.

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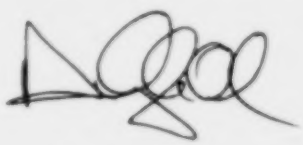
ACCOUNTABILITY STATEMENT

The government's Annual Report for the year ended March 31, 2007 was prepared under my direction on behalf of the government in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at June 19, 2007 with material economic or fiscal implications have been considered in the preparation of the Annual Report.



Lyle Oberg
Minister of Finance

A MESSAGE FROM THE MINISTER OF FINANCE

The past year was a time of unprecedented growth and change for Alberta and its residents. We saw our highest economic growth since 1993 - leading Canada for the third consecutive year, a population increase of 100,000 - with record migration from other provinces, and our lowest unemployment levels in 30 years.

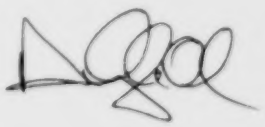
Government responded to this growth with significant spending increases in key areas, such as health, education, post-secondary education, infrastructure and support for Albertans.

Some of the major initiatives supported by this funding included: improvements to access and affordability of the post-secondary system; improvements to continuing care, access to health services, and reductions in wait times; an increase in AISH maximum monthly allowance; a new five-point child care plan; continued support for the Class Size Initiative; and increased support for policing, environment and tourism. The surplus was allocated to capital projects, to savings in the Heritage Fund and other endowments, and to the Sustainability Fund.

Looking ahead, we will build on the province's fiscal and economic strengths to help address government's five priorities of: governing with integrity and transparency; managing growth pressures; improving Albertans' quality of life; building a stronger Alberta; and providing safe and secure communities.

However, actions must be realistic, affordable and sustainable. They must also take into consideration the fact that economic events are difficult to predict - fluctuating commodity markets and other global factors can't be controlled by any government.

Government is working to manage growth in a transparent and sustainable manner for the benefit of all Albertans.



Lyle Oberg
Minister of Finance

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Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 20 ministries.

The Annual Report of the Government of Alberta contains the Ministers' accountability statements, an Executive Summary, the consolidated financial statements of the Province and the Measuring Up report, which compares actual performance results to desired results set out in the government's business plan. The Measuring Up report is published in a separate document.

The annual reports of ministries, released in the fall of each year, contain Ministers' accountability statements, the audited consolidated financial statements of the ministries and a comparison of actual performance results to desired results set out in the ministries' business plans. Each ministry annual report also includes:

- financial statements of entities making up the ministry including departments (all departments combined form the General Revenue Fund), regulated funds, provincial agencies and Crown-controlled corporations,
- other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of financial statements, to the extent that the ministry has anything to report, and
- financial information relating to accountable organizations and trust funds.

Executive Summary

Annual Report 2006-2007

Alberta

The Government of Alberta Annual Report consists of two parts:

- ***Consolidated Financial Statements***, which provide an overall accounting of the Government's revenue and spending, and assets and liabilities.
- ***Measuring Up***, which reports on the progress that has been made towards achieving the government's goals. *Measuring Up* is published in a separate document.

Annual reports for each ministry are published in September and provide additional detailed information on performance and financial results.

Executive Summary

BUDGET 2006

2006 was a year of extraordinary growth. Alberta led all provinces in economic growth for the third consecutive year. Rapid employment growth resulted in Alberta being essentially at full employment. The strong economy also resulted in record inter-provincial migration and contributed to Alberta's population growing by nearly 100,000.

Budget 2006 maintained a commitment to a fiscally-sound and sustainable outlook. Initiatives were directed to strengthening Alberta today and securing the province's prosperity tomorrow. Support for infrastructure was increased, improvements were made to the programs and services provided to Albertans, taxes were lowered and savings increased.

Faster-than-expected growth in the economy and population contributed to increased pressures throughout the year and higher-than-forecast revenue. The government responded by increasing support for infrastructure and setting aside resources for future requirements.

MAJOR INITIATIVES AND OUTCOMES

Program Initiatives

- Total operating spending increased by 8.3%, or $1.9 billion, to $24.5 billion. This supported:
  - Advanced Education. Improvements to access and affordability of the post-secondary system. New tuition policy was developed. New apprenticeship seats added.
  - Health. Improvements to continuing care, access to health services, and reductions in wait times. Alberta had the highest per capita spending among provinces.
  - Helping Albertans. An increase in the AISH maximum monthly allowance. New Five-Point Child Care Investment Plan.
  - Education. Continued support for Class Size Initiative, under which 2,500 teachers have been hired to enable reduced class sizes.
  - Other. Increased research including emphasis on cancer prevention and energy innovation. Establishment of Rural Alberta's Development Fund. Increased support for policing, environment and tourism.

Capital Plan

- Support for capital projects increased from 2005-06 by nearly 27%, or $1 billion, reaching over $4.7 billion. Major increases were for basic and post-secondary education and health facilities.

Taxes

- Alberta's tax advantage was strengthened. Personal income tax credits were increased and the general corporate income tax rate was reduced.

Fiscal Responsibility

- Alberta recorded a surplus for the 13th consecutive year. Higher-than-forecast revenue contributed to an $8.9 billion surplus. Total operating spending was held to the budgeted amount. In-year spending increases were restricted to capital support, disaster/emergency assistance and natural gas rebates.

Surplus Allocations

- **Savings.** $2.7 billion was committed to the Heritage Fund, endowments and other funds.
- **Capital Account.** $2.3 billion was committed to the Capital Account for future-year requirements.
- **Sustainability Fund.** $3.6 billion was added to the Sustainability Fund.

NOTE ON REPORTING ENTITY

The *2006-07 Government of Alberta Annual Report* includes a larger reporting entity than the budget and quarterly update presentations.

- The net income of Crown-controlled entities in the SUCH sector (schools, universities, colleges and health authorities) has been included in the consolidated financial statements. This adds $540 million to 2006-07 revenue.
- The change in pension obligations is also included in the consolidated statements. This adds $158 million to expense in 2006-07.
- As a result, on a budget presentation basis the 2006-07 surplus is $8.5 billion, but on the larger reporting entity basis, is $8.9 billion.
- Commentary on changes from 2005-06 include the change in equity of the SUCH sector, while discussion of changes from budget and forecast exclude the increase in equity of the SUCH sector, as information was not available.

FISCAL HIGHLIGHTS

- **Overview.** The Province recorded a surplus of $8.9 billion in 2006-07, $196 million higher than in 2005-06. Revenue remained at a historically high level as a result of strong economic growth in the province, continued strong energy prices and strong investment returns. Total expense increased by 9.1%, reflecting significant operating and capital spending increases. However, this increase was lower than the 11.8% increase in 2005-06.
- **Revenue** was $38.6 billion. Revenue was $2.7 billion or 7.4% higher than in 2005-06, and $5.6 billion higher than estimated in *Budget 2006*. The increases were mainly due to higher income tax revenue and investment income, reflecting strong economic growth in the province and strong world equity markets. Partially offsetting these increases was a $2.1 billion decline in non-renewable resource revenue from its record level in 2005-06.
- **Expense** was $29.7 billion, 9.1% or $2.5 billion higher than in 2005-06, and $1.2 billion higher than estimated in *Budget 2006*. The increase from the previous year was due to both higher operating spending (8.3%, or $1.9 billion increase) and capital grants (29.6%, or $788 million increase). The increase from budget reflected higher capital grants and emergency/disaster assistance.
- **Surplus.** $8.9 billion. This was $196 million higher than in 2005-06. On a budget basis (excluding the change in SUCH sector equity and pension provisions), the surplus was $4.4 billion higher than budgeted and $41 million lower than in 2005-06.
- **Fourth Quarter Results.** The surplus was $1.1 billion higher than the forecast published in April 2007 in *Budget 2007* documents, due to a $958 million increase in revenue and a $164 million decrease in expense (excluding the change in pension provisions).
- **Net Assets.** At March 31, 2007, net assets were $46.6 billion. This included $12.4 billion in capital assets and $3.7 billion in equity in Crown-controlled SUCH sector entities.

Fiscal Summary

(millions of dollars)

		2006-07			2005-06
		Budget	Forecast [c]	Actual	Actual
1	**Revenue**				
2	Revenue (budget basis)	32,408	37,059	38,017	35,542
3	SUCH sector increase in equity [a]	n/a	n/a	540	345
4	**Total Revenue**	**32,408**	**37,059**	**38,557**	**35,887**
5	**Expense**				
6	Program expense				
7	Operating expense	24,468	24,577	24,468	22,596
8	Capital grants	2,662	3,452	3,448	2,660
9	Disaster/emergency/natural gas rebates	362	876	854	1,037
10	Capital amortization and nominal sum disposals	575	545	522	450
11	Debt servicing costs	245	221	215	248
12	Pension provisions	147	155	158	200
13	**Total Expense** [b]	**28,459**	**29,826**	**29,665**	**27,191**
14	**Revenue in Excess of Expense**	**3,949**	**7,233**	**8,892**	**8,696**
15	Adjustment for pension provisions	147	155	158	200
16	Adjustment for SUCH sector	n/a	n/a	(540)	(345)
17	**Net Revenue** (budget basis) [b]	**4,096**	**7,388**	**8,510**	**8,551**

[a] Increase in equity of Crown-controlled organizations in the SUCH sector was not available for budget and quarterly forecasts.

[b] Net revenue (surplus) on a budget/quarterly presentation basis. For the purposes of the *Fiscal Responsibility Act*, the change in equity of SUCH sector organizations and the annual change in pension obligations are excluded from balanced budget requirements. Pension obligations are scheduled to be eliminated under a separate legislated plan.

[c] Updated Forecast published in April 2007 in *Budget 2007* documents.

SURPLUS ALLOCATION

- As the assets in the Sustainability Fund exceeded the minimum required $2.5 billion, the cash available from the 2006-07 surplus could be allocated to other purposes.
- $2.3 billion was committed to the Capital Account for future-year capital commitments and $2.7 billion to savings. $3.6 billion was retained in the Sustainability Fund.
- These allocations include the cash available from the higher than forecast fourth quarter results. After adjusting for the retained income of funds and agencies and other factors, the cash available from the higher fourth quarter surplus was $763 million.
- $81 million was provided to the Heritage Fund to address a higher inflation-proofing requirement. The remaining $682 million has been allocated one-third to savings and two-thirds for capital. These transfers will take place in 2007-08.

Capital Account - $2.3 billion

- A net $1.8 billion was transferred to the Capital Account in 2006-07 to help pay for capital projects in future years.
- Based on the fourth quarter results, an additional $455 million will be transferred to the Capital Account in 2007-08.

Savings - $2.7 billion

- $1.5 billion was saved in the Heritage Fund, including $250 million for the advanced education endowment.
- $700 million was used to establish the Alberta Cancer Prevention Legacy Fund and Energy Innovation Fund.
- $270 million was allocated to the Medical Research Endowment Fund, the Science and Engineering Research Endowment Fund and the Scholarship Fund.
- An additional $227 million will be allocated to savings in 2007-08 based on the 4th quarter results.

Sustainability Fund - $3.6 billion

- $3.6 billion was retained in the Fund, bringing total assets to $7.7 billion.

Allocation of Surpluses *(millions of dollars)*	**2006-07 Actual**	**2005-06 Actual**
Surplus	8,892	8,696
Adjustments [a]	(1,384)	(1,461)
Cash transferred from previous year fourth quarter results	1,095	696
Net Cash Available for Allocation	**8,603**	**7,931**
Allocation		
Capital Account - net deposits for future-year commitments	1,848	3,569
Heritage Fund - deposit	1,000	1,000
Heritage Fund - inflation proofing	283	382
Advanced education endowment (in the Heritage Fund)	250	750
Scholarship Fund	20	250
Medical Research Endowment Fund	150	200
Science and Engineering Research Endowment Fund	100	100
Alberta Cancer Prevention Legacy Fund	500	-
Energy Innovation Fund	200	-
Sustainability Fund	3,570	585
Current-Year Allocation	**7,921**	**6,836**
Cash from fourth quarter results transferred after March 31		
Deposit in Sustainability Fund	-	1,095
Deposit for Savings	227	-
Deposit in Capital Account	455	-
Total Allocation	**8,603**	**7,931**

[a] The amount available for allocation reflects the current-year surplus adjusted for: retained income of funds, agencies and SUCH sector entities; differences between cash and accrued revenue/expenditures; and cash transferred from the previous year's fourth quarter results. Further information on adjustments is included in the discussion regarding the Alberta Sustainability Fund on page 16.

ECONOMIC AND TAX HIGHLIGHTS

ECONOMIC HIGHLIGHTS (calendar year basis)

- **Economic Growth.** Alberta's economy led the country with an exceptionally strong performance. The economy expanded by 6.8% in 2006, the fastest pace of growth since 1993.
- **Employment.** In 2006, over 86,000 jobs were created, resulting in employment growth of 4.8%. Alberta's unemployment rate hit a 30 year low of 3.4%.
- **Population Growth.** Alberta attracted over 57,000 net inter-provincial migrants. This is the highest level on record, surpassing the previous high of 46,000 set in the 1981 census year. Alberta's total population grew by 3%, triple the national average.
- **Personal Income.** Alberta had the highest personal disposable income per capita among the provinces in 2006, at $32,109. This was more than $6,485, or 25%, above the national average. Average hourly wages were up by 6.9% in 2006, which contributed to a 12.5% gain in total labour income.
- **Consumer Sector.** Strong population growth and large income gains further enhanced a robust consumer sector. Alberta led all provinces in retail sales growth, with sales up 16% in 2006, more than double the national increase of 6.4%.
- **Housing.** The demand for housing soared. After reaching a 27-year high of just under 41,000 in 2005, Alberta housing starts surged to an all-time high of 48,962 in 2006. The new house price index was up 39.6%.
- **Inflation.** Rising housing costs were the main factor contributing to a surge in Alberta's inflation rate. In 2006, Alberta's CPI inflation rate averaged 3.9%, up sharply from 2.1% in 2005. Excluding shelter costs, Alberta's inflation rate was 1.8%.
- **Energy Sector.** Volatile oil prices and weaker natural gas prices had a dampening effect on conventional drilling activity. The number of rigs drilling in Alberta fell 4.6%. Real oil sands investment, however, increased by 3.7% to $8.5 billion in 2006.
- **Manufacturing Sector.** Even with a relatively high Canadian dollar, Alberta's manufacturing sector enjoyed strong growth in 2006, with shipments up 6.8%. Nationally, shipments were down 0.6% in 2006.
- **Agriculture Sector.** Alberta's agriculture sector experienced major improvements in 2006. The value of Alberta's wheat exports jumped 41.7%, mainly due to increased volumes. Higher canola prices, which rose because of a drought in Australia and increased demand for bio-fuel production, boosted the value of canola exports by 36%. However, the value of Alberta's packaged beef exports fell 36%, to $505 million, as more Alberta live cattle were processed in the United States with the re-opening of the border in July 2005.

TAX HIGHLIGHTS

- **Lowest Overall Taxes.** Albertans and Alberta businesses paid the lowest overall provincial taxes in Canada. Indexation of the personal tax system protected taxpayers from paying higher taxes due to inflation.
- **Corporate Income Tax Rate Reduction.** The general corporate income tax rate was cut by 1.5 percentage points to 10% on April 1, 2006.
- **School Property Taxes.** School property tax rates were reduced by 7% in 2006, marking the thirteenth straight year that rates have been reduced or frozen.
- **Health Care Insurance Premiums.** Thresholds for premium subsidies were increased, resulting in lower or no premiums for lower income Albertans.
- **Charitable Donations Tax Credit.** Effective January 1, 2007, the credit rate for total donations over $200 rises from 12.75% to 21%. When combined with the federal credit, Albertans will receive 50 cents in tax credits for every dollar over $200 they donate.
- **Dividend Tax Credit/Small Business Threshold.** A two-tier dividend tax credit and an increase to the small business threshold were announced and will be fully phased in by 2009. The changes will ensure that income earned through large corporations, small corporations or wages and salaries is treated equally for tax purposes.

OVERVIEW OF PROGRAM AND CAPITAL SPENDING

EXPENSE

Total expense was $29.7 billion in 2006-07. The health and education functions continued to account for over 60% of total expense.

Year-over-Year Comparison. Total expense increased by 9.1% or $2.5 billion in 2006-07. This included:

- Operating expense - $1.9 billion or 8.3% increase, primarily related to health and education.
- Capital grants - $788 million or 29.6% increase, due to higher health and education infrastructure support.
- Disaster/emergency assistance - $476 million, $73 million higher than in 2005-06, due to higher costs for agriculture assistance, forest fire-fighting and fighting mountain pine beetle infestations, partially offset by lower flood assistance.
- Natural gas rebates - $378 million. This was $256 million less than in 2005-06 due to lower natural gas prices.

Budget-to-Actual Changes. Total expense was $1.2 billion higher than budgeted. This was due to higher capital grants and emergency/disaster assistance.

- Operating expense - Unchanged from budget. Increases in some areas were offset by lapses in other areas.
- Capital grants - $786 million increase, mainly for basic and post-secondary education and health facilities.
- Disaster/emergency assistance - $476 million increase primarily for agriculture assistance, forest fire-fighting and fighting mountain pine beetle infestations.
- Other expense - $56 million net decrease. Increases in natural gas rebates and pension provisions were more than offset by lower amortization and debt servicing costs.

Forecast-to-Actual Changes. Expense was down $164 million from the 2006-07 forecast provided in the *Budget 2007* documents (excludes change in pension provisions). This was mainly due to lapses in operating expense.

Expense

(millions of dollars)

	2006-07		2005-06	Change from	
	Budget	Actual	Actual	Budget	2005-06 Actual
Operating expense	24,468	24,468	22,596	-	1,872
Capital grants	2,662	3,448	2,660	786	788
Disaster/emergency assistance	-	476	403	476	73
Natural gas rebates	362	378	634	16	(256)
Capital amortization and nominal sum disposals	575	522	450	(53)	72
Debt servicing costs	245	215	248	(30)	(33)
Pension provisions	147	158	200	11	(42)
Total Expense	**28,459**	**29,665**	**27,191**	**1,206**	**2,474**
Capital investment	1,519	1,295	1,083	(224)	212

Note on Capital Investment

In 2006-07, capital investment in government-owned facilities and equipment was $1.3 billion, an increase of $212 million from 2005-06. Capital investment is not recorded as an expense; only the amortization cost of government-owned capital is reflected in expense. Capital support to external authorities (including the SUCH sector) is treated as an expense and is not amortized in provincial government financial statements. Capital investment plus capital grants to external authorities, and support for highway rehabilitation, equal the total Capital Plan support provided by the provincial government. The Capital Plan does not include amortization costs.

Expense by Function

(millions of dollars)

	2006-07		2005-06	Change from 2005-06		
	Budget	Actual	Actual	Budget	Actual	%
Health	10,462	10,878	9,709	416	1,169	12.0
Education	7,628	7,976	6,900	348	1,076	15.6
Social Services	2,952	2,931	2,707	(21)	224	8.3
Transportation, Communications and Utilities [a]	2,043	2,169	2,328	126	(159)	(6.8)
Agriculture, Resource Management & Economic Development [b]	1,845	1,959	1,816	114	143	7.9
Protection of Persons and Property [c]	999	1,208	1,162	209	46	4.0
Regional Planning and Development	410	400	410	(10)	(10)	(2.4)
Recreation and Culture	323	308	355	(15)	(47)	(13.2)
Housing	199	262	293	63	(31)	(10.6)
Environment	202	218	198	16	20	10.1
General Government	1,004	983	865	(21)	118	13.6
Debt Servicing Costs	245	215	248	(30)	(33)	(13.3)
Pension Provisions	147	158	200	11	(42)	(21.0)
Total Expense	**28,459**	**29,665**	**27,191**	**1,206**	**2,474**	**9.1**

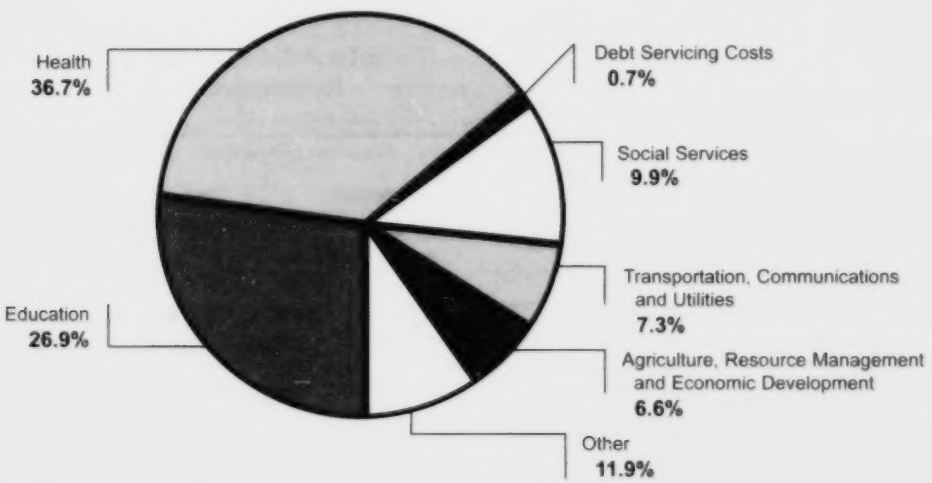
[a] Includes municipal infrastructure support and natural gas rebates.

[b] Includes BSE assistance.

[c] Includes flood assistance and forest fire-fighting costs.

2006-07 Expense by Function

$29.7 billion



CAPITAL PLAN

- The Capital Plan supported $4.7 billion of capital projects in 2006-07. This was an increase of $1 billion, or 26.7%, from 2005-06; and $562 million higher than budgeted.
- Over 81% of the increase from 2005-06 related to increases for schools and health and post-secondary facilities.
- The government announced additional capital commitments during the year, including funding for schools, post-secondary facilities, community facilities, Edmonton Remand Centre and regional water systems. Most of the increased funding associated with these announcements will take place in 2007-08 and future years. In addition, funding was provided for cost escalation of existing projects.
- Alberta's per capita spending on infrastructure is nearly four times the average of other provinces.
- The 2007-10 Capital Plan published in *Budget 2007* averages over $6 billion per year.

Capital Plan

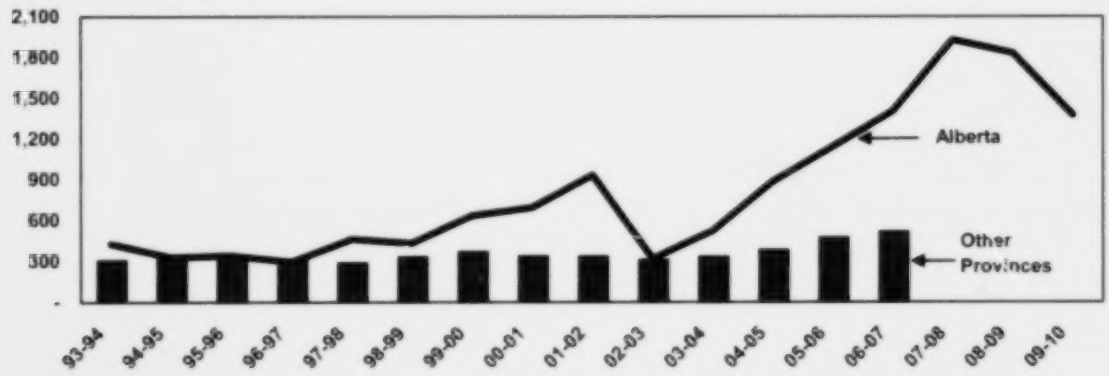
(millions of dollars)

	2006-07		2005-06	Change from 2005-06	
	Budget	Actual	Actual	Budget	Actual
Municipal infrastructure support	1,021	1,076	1,047	55	29
Provincial highway network	1,093	924	769	(169)	155
Health facilities and equipment	752	934	662	182	272
Schools	346	579	243	233	336
Post-secondary facilities	282	399	194	117	205
Community facilities and centennial projects	122	121	244	(1)	(123)
Water and wastewater management	90	170	121	80	49
Government facilities, housing and equipment	346	540	451	194	89
Capital for emergent projects [a]	129	-	12	(129)	(12)
Total Capital Plan	**4,181**	**4,743**	**3,743**	**562**	**1,000**

[a] Capital for emergent projects funding is reallocated to appropriate functional areas based on the projects funded.

Interprovincial Comparison of Capital Expenditure

(dollars per capita)



Source: Dominion Bond Rating Service Limited, *The 2006 Canadian Federal and Provincial Governments Overview: Hitting a Peak?*, October 2006, and earlier reports. Alberta data for 2005-10 have been updated by Alberta Finance.

SPENDING HIGHLIGHTS
(BY FUNCTIONAL AREA)

HEALTH

- Health expense was $10.9 billion, an increase of over 12% or $1.2 billion from 2005-06, and $416 million higher than budgeted.
- The **increase from 2005-06** reflected higher funding for health services, physician services, prescription drug costs, information technology systems and health facilities infrastructure. Operating increases included:
  - $541 million, or 9.7%, in base operating grants for the health authorities.
  - $290 million, or 16.5%, for physician services, reflecting increases in volume and rates, and benefit and program increases under the new Tri-Lateral Master Agreement.
  - $36 million, or 6.1%, for non-group health benefits, largely due to higher costs of drug benefits.
- The **increase from budget** reflected additional funding for physician services arising from the Tri-Lateral Master Agreement, general operating increase for health authorities, including increase for the auxiliary nursing salary settlement, and higher diagnostic and medical equipment grants.

Major Initiatives

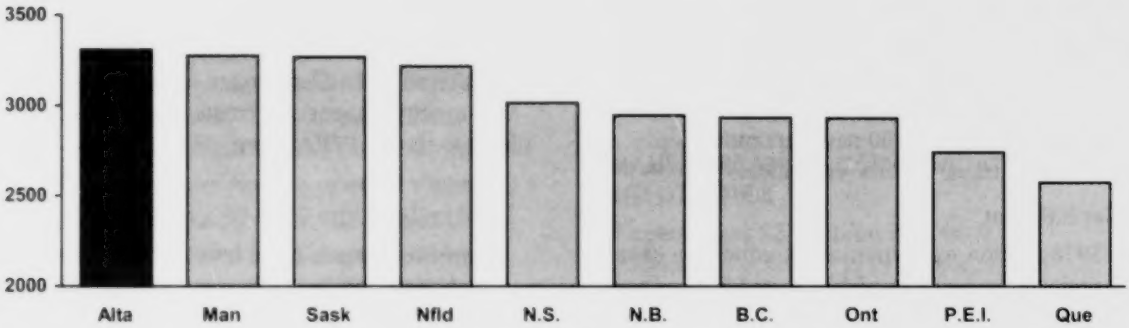
- Improved province-wide access to health services and reduced wait times. The innovative models of patient care demonstrated by the Alberta Hip and Knee Replacement Project were extended to breast and prostate cancer care, coronary artery bypass surgery, MRIs and CT scans.
- Supported physician recruitment and retention through increased fee-for-service rates. Innovative service-delivery initiatives were enhanced, including alternative payment mechanisms, primary care and on-call programs.
- Improved continuing care by increasing funding for nursing and personal care hours per resident in long-term care facilities, increasing therapy, implementing new health care standards and improving case coordination.
- Added $150 million to the Medical Research Endowment Fund in 2006-07. Another $150 million is committed for 2007-08, bringing total assets in the Fund to over $1.5 billion.
- Enacted the *Alberta Cancer Prevention Legacy Act*, which established a $500 million Alberta Cancer Prevention Legacy Fund. In 2006-07, the first $25 million was drawn from the Fund to support initiatives in cancer prevention, education and screening, including a province-wide colorectal cancer screening program.
- Passed the Pharmacists Profession Regulation, allowing pharmacists to prescribe some drug treatments, continue existing prescriptions of other health professionals and administer injectable treatments such as vaccines.

Capital Plan

- $934 million was provided for health facilities and equipment (including $47 million of capital investment), an increase of $272 million from 2005-06. 2006-07 capital support included:
  - The new Alberta Children's Hospital, a 750,000 square foot building located on the University of Calgary's West Campus.
  - The Mazankowski Alberta Heart Institute, redevelopment of the Royal Alexandra, Misericordia, Grey Nuns, University and Sturgeon Hospitals in the Edmonton region.
  - New health facilities in Sherwood Park and Fort Saskatchewan.
  - Redevelopment and expansion of the Foothills, Rockyview and Peter Lougheed Hospitals, and construction of the Sheldon M. Chumir Health Centre and Richmond Road Diagnostic and Treatment Centre in Calgary.
  - Ongoing redevelopment of hospitals in Lethbridge, Rimbey, Edson, Barrhead, Viking and High Prairie.
  - Investing in diagnostic/medical equipment to improve overall access to new or replacement diagnostic imaging, laboratory, medical and surgical equipment.

2006-07 Comparison of Provincial Government Health Expenditures

(dollars per capita)



Source: Canadian Institute for Health Information (CIHI) – National Health Expenditure Trends, 1975-2006.
Note: Definition of health expenditure includes health-related components of various income support programs not included in the health expense function in 2006-07. Statistics Canada's Financial Management System, which uses a narrower definition than CIHI, places Alberta's per capita health spending as the second highest among provinces in 2006-07.

EDUCATION

- Education expense was $8 billion in 2006-07. This was an increase of 15.6% or $1.1 billion from 2005-06, and was $348 million higher than budgeted.
- The **increase from 2005-06** primarily reflected higher K-12 and post-secondary education operating grants, pension costs, additional post-secondary spaces and capital projects.
- This **increase from budget** reflected increased capital grants for cost escalation and new projects as well as increases in K-12 and post-secondary education operating grants.

Major Initiatives

Kindergarten to Grade 12 Education

- Increased operating support to school boards by $230 million, a 6.2% increase from 2005-06.
- $163 million was provided for the Class Size Initiative, an increase of $55 million, or 51.5% from 2005-06. The number of teachers hired under this initiative reached 2,500. As a result, the majority of school boards met or exceeded the Commission on Learning's average class size guidelines for grades 4 to 12.
- Initiated the *Your Future Starts Here* consultation, a series of roundtable sessions with youth and a provincial High School Completion Symposium to support the development of a provincial strategy to increase high school completion rates.

Advanced Education

- Support for post-secondary institutions increased by 16.2% from 2005-06. This included:
  - 6% increase in operating grants.
  - Additional apprenticeship technical training spaces.
  - Nursing degree programs at Mount Royal College and Grant MacEwan College.
  - Development of social work, Cree Language and Aboriginal artist programs at Blue Quills College.
  - Funding to match private donations to the universities and colleges.
  - An advisory council was established to guide the new Access to the Future Fund. In 2006-07, $250 million was provided to the advanced education endowment, bringing total assets to $1 billion.
- Funding for the Alberta Heritage Scholarship Fund was increased. Eligibility criteria for the Rutherford Scholarship were changed to allow more students to access the grade 12 portion of the award.
- A comprehensive tuition policy framework was released, to make post-secondary education more affordable for students. A key component is limiting annual tuition increases to inflation starting in fall 2007.

- The Government of Alberta and the Canada Millennium Scholarship Foundation created a bursary to encourage rural students to pursue post-secondary education.
- New spaces were created across the advanced education system, with priority placed on health, energy, graduate studies and Aboriginal education. Over 5,100 new apprenticeship technical training seats were added in 2006-07.

Capital Plan

- $978 million was provided for education capital projects, an increase of 124%, or $541 million, from 2005-06. Funding included $579 million for school projects and $399 million for post-secondary institutions.
- Schools - Twelve new schools, four replacement schools, and six modernization/ expansion schools were opened during 2006-07. Funding was also increased for school infrastructure maintenance and renewal, cost escalation of approved projects and modular classrooms.
- Post-secondary facilities - Funding provided for expansion and upgrades at the Health Research Innovation Facility, Edmonton Clinic and the Centennial Centre for Interdisciplinary Science at the University of Alberta; the digital library and the Faculty of Veterinary Medicine at the University of Calgary; the Alberta Water and Environmental Science Building at the University of Lethbridge; and expansions at the Bow Valley and Red Deer Colleges. Additional funding was provided during the year to help address cost escalation of approved projects.

SOCIAL SERVICES

- Social Services expense was $2.9 billion in 2006-07. This was an increase of 8.3% or $224 million from 2005-06. However, this was $21 million lower than budgeted.
- The **increase from 2005-06** reflected increases in support for Assured Income for the Severely Handicapped (AISH), child care and seniors benefits.
- The **decrease from budget** was due to a lower-than-expected uptake in new child care programs and lower-than-estimated AISH, Persons with Developmental Disabilities (PDD) and seniors benefit payments.

Major Initiatives

- Support for AISH increased by 10.7%, with maximum monthly income benefits for clients increased by $50, to $1000 per month.
- Functions of the PDD Provincial Board were transferred to the Department of Seniors and Community Supports to create direct reporting lines to the six PDD Community Boards.
- Children's Services support increased 10.8%, or $87.9 million from 2005-06, providing:
  - Improvements in child intervention services, including introducing a new case-work practice model.
  - Implementation of Alberta's Five-Point Child Care Investment Plan.
  - Expanded client eligibility and increased scope of services in the Family Support for Children with Disabilities program.
  - Implementation of the Prevention of Family Violence and Bullying Strategy, including a new public awareness campaign and salary increases for women's shelter staff.
  - Establishment of nine new Parent Link Centres, providing child development and well-being advice to parents.
  - Strengthening the protective services safety net by enacting the *Drug-Endangered Children Act*. The Act provides an additional tool to rescue, protect, shelter and support children who may be exposed to drug manufacturing and trafficking.

AGRICULTURE, RESOURCE MANAGEMENT AND ECONOMIC DEVELOPMENT

- Expense was $2 billion in 2006-07. This was an increase of 7.9% or $143 million from 2005-06, and $114 million higher than budgeted.
- The **increase from 2005-06** mainly reflected establishing the $100 million Rural Alberta's Development Fund and ongoing efforts to combat mountain pine beetle infestations.
- The **increase from budget** was mainly due to additional emergency/disaster assistance for agriculture and mountain pine beetle infestations, partly offset by crop insurance lapses.

Major Initiatives

- $229 million in agriculture disaster assistance was provided to assist producers impacted by rising input costs and falling commodity prices.
- $100 million was provided to the Rural Alberta's Development Fund. The Fund will support community-focused projects that contribute to the growth and prosperity of rural Alberta.
- $200 million was provided to establish the Energy Innovation Fund to support research, advanced technologies, market development and innovative projects focusing on energy development and environmental protection. $25 million from the Fund was spent in 2006-07.
- Increased support to the Alberta Energy Research and Life Sciences Institutes. Their research includes work on clean coal technologies, safe drinking water, efficient water use and healthy watersheds.
- Released *Investing in our Future: Responding to the Rapid Growth in Oil Sands Development* (the Radke Report), which outlined a coordinated action plan to address the impact of oil sands development on local communities.
- The Value-Added and Technology Commercialization Task Force was established to gain a stronger competitive edge in the global knowledge-based economy.
- The Bio-refining Commercialization and Market Development Program and the Bio-energy Infrastructure Development Program were established to aid development of facilities producing various bio-fuels, including bio-diesel and ethanol, and to assess the long-term sustainability of the bio-energy marketplace in Alberta.
- The Alberta Royalty Review Panel was established to ensure Albertans are receiving a fair share from energy development through royalties, taxes and fees.
- Tourism funding increased to support expanded national and international marketing and development of new tourism opportunities.
- Provided $12.5 million in one-time funding to the Alberta Film Development Program to deal with approved film projects.
- $50 million in emergency funding was provided to combat mountain pine beetle infestations in Alberta forests. An aggressive beetle management plan was developed.
- Work continued on developing the Land-use Framework, an overarching vision for land use in Alberta.

TRANSPORTATION, COMMUNICATIONS AND UTILITIES

- Expense was $2.2 billion in 2006-07, a decrease of 6.8%, or $159 million, from 2005-06. However, this was an increase of $126 million, or 6.2% from budget.
- The **decrease from 2005-06** reflected lower natural gas rebates due to lower natural gas prices in 2006-07, partially offset by increases in provincial highway maintenance and rehabilitation spending and municipal infrastructure grants.
- The **increase from budget** reflected additional municipal infrastructure grants, primarily for regional water projects and public transit.

Major Initiatives

- Continued the five-year, $3 billion Municipal Infrastructure Program.
- Paved 918 kilometres of provincial highways.
- Implemented the Alberta Traffic Safety Plan to help reduce collisions and improve safety on roads and highways.
- Provided $378 million in natural gas rebates.

Capital Plan

2006-07 capital spending supported:

- $1.1 billion in municipal infrastructure grants, an increase of $29 million from 2005-06.
- $924 million for the provincial highway network (includes $756 million in capital investment), an increase of $155 million from 2005-06. This included:
  - Completion of the southwest leg of Edmonton's Anthony Henday ring road and continued work on the southeast leg scheduled for completion in 2007.
  - Further planning for other segments of the ring roads including the negotiation of a public-private partnership for the northeast leg of Calgary's Stoney Trail ring road.

- Twinning several segments of the North-South Trade Corridor and Highway 63 between Edmonton and Fort McMurray.
- Continued the rehabilitation of highways and roads in key development areas throughout the province.

PROTECTION OF PERSONS AND PROPERTY

- Protection of Persons and Property expense was $1.2 billion in 2006-07, an increase of $46 million or 4% from 2005-06, and $209 million from budget.
- The **increase from 2005-06** reflected higher forest fire-fighting costs and funding for policing and justice programs.
- The **increase from budget** reflected higher forest fire-fighting costs.

Major Initiatives

- Added 80 RCMP officers in rural communities, bringing the overall Alberta complement to over 1,400 officers.
- Added 39 new Sheriff Highway Patrol positions.
- Established a 16 member investigative team to support efforts against organized crime and gangs.
- Expanded the Integrated Child Exploitation and Cyber Crime prosecution unit to combat child sexual exploitation.
- Established the Alberta Relationship and Threat Assessment Management Initiative, a team approach to domestic violence involving prosecutors, police and mental health experts.
- Implemented a new perimeter security program in courthouses across the province.
- Implemented new state-of-the-art videoconferencing technology linking provincial courts with correctional facilities around the province, to reduce the number of prisoner transfers and increase efficiency.
- Provided $255 million for forest fire-fighting costs and wildfire prevention programs. This included $192 million in disaster funding from the Sustainability Fund.

OTHER PROGRAM EXPENSE

- Other Program expense was $2.2 billion in 2006-07. This was an increase of 2% or $50 million from 2005-06, and was $33 million higher than budgeted.
- The **increase from 2005-06** primarily reflected a payment towards the government's share of the Management Employee Pension Plan unfunded obligation, increased environment spending and other general increases. Partly offsetting these increases were lower capital grants for centennial/community facilities and affordable supportive living units, and one-time additional library grants in 2005-06.
- The **increase from budget** reflects additional funding for housing programs and the environment, partly offset by lapses in other areas, including lower-than-forecast revenue/spending related to First Nations casinos and racing entertainment centres.

Major Initiatives

- Housing - In 2006-07, $262 million was provided to support the development of affordable housing and supportive living units.
- Established the Alberta Affordable Housing Task Force to identify cost effective solutions to the acute shortage of affordable and accessible housing across Alberta.
- Approved $50 million over three years to help municipalities and other eligible owners clean up contamination from leaking underground storage tanks on their current or former retail gas station sites.
- Continued implementation of *Water for Life: Alberta's Strategy for Sustainability* and its three key objectives: safe, secure drinking water; healthy aquatic ecosystems; and reliable water supplies for a sustainable economy. This included the ongoing development of Watershed Planning and Advisory Councils, the South Saskatchewan River Basin Management Plan, the Gas Sampling Protocol and the Baseline Water-Well Testing for Coalbed Methane Operations standard.

- Introduced the *Climate Change and Emissions Management Amendment Act*, making Alberta the first province in Canada to introduce legislation to reduce greenhouse gas emissions intensity from large industry. Large emitters will be required to reduce their emissions intensity by 12% starting July 1, 2007.
- Increased operating and capital support to enhance Alberta's park infrastructure and facilities, including the completion and official opening of Dinosaur Provincial Park Visitor Centre and the Boreal Centre for Bird Conservation.

Capital Plan

- Provided $15 million to the Art Gallery of Alberta, which will display Alberta's cultural heritage for the benefit of future generations.
- Provided $20 million to the Calgary Zoo's Project Discovery, which will position the Zoo as an international leader in animal husbandry, wildlife habitats, environmental stewardship and state-of-the art exhibit design.

DEBT SERVICING COSTS

- Debt servicing costs represent the interest paid on unmatured accumulated debt and interest costs related to Agriculture Financial Services Corporation's lending operations.
- Debt servicing costs were $215 million in 2006-07, a decrease of $33 million from 2005-06 and $30 million from the budget estimate, primarily due to lower debt and lower in-year financing requirements.
- Sufficient funds have been set aside in the Debt Retirement Account to repay the remaining $2 billion of accumulated debt as it matures.

PENSION PROVISIONS

- Pension obligations in respect of public sector pension plans increased by $158 million to $5.6 billion in 2006-07.
- $143 million of the increase was related to the teachers' plans. The Province's obligations for the teachers' plans increased to $4.6 billion.
- For purposes of the *Fiscal Responsibility Act*, the annual change in pension obligations is excluded from expense and balanced budget requirements. Pension obligations are scheduled to be eliminated under a separate legislated plan.

Pension Obligations

Government Obligations for Pension Plans
(millions of dollars)

	2006-07	2005-06
Teachers	4,567	4,424
Public Service Management (Closed)	723	678
Universities Academic	196	190
Members of the Legislative Assembly	50	49
Management Employees	-	29
Public Service	-	2
Special Forces	57	63
Total	**5,593**	**5,435**

REVENUE HIGHLIGHTS

TOTAL REVENUE

- Total revenue was $38.6 billion, $2.7 billion or 7.4% higher than in 2005-06. Revenue was $5.6 billion higher than budgeted.
- The **increase from budget** was primarily due to higher income tax revenue, non-renewable resource revenue and investment income.
- The **increase from 2005-06** was due to higher income tax revenue and investment income; and a deduction in 2005-06 for the *Alberta 2005 Resource Rebate*. Partially offsetting these were lower resource revenue and federal transfers.
- The $955 million **increase from the April forecast** in *Budget 2007* documents was due to higher resource and personal income tax revenue, and gaming and lottery revenue.

Revenue

(millions of dollars)

	2006-07		2005-06	Change from	Change from 2005-06
	Budget	Actual	Actual	Budget	Actual
Personal income tax	5,999	7,600	6,000	1,601	1,600
Alberta 2005 Resource Rebate [a]	-	22	(1,323)	22	1,345
Corporate income tax	2,227	3,606	2,917	1,379	689
Other taxes	3,320	3,468	3,273	148	195
Non-renewable resource revenue	11,354	12,260	14,347	906	(2,087)
Transfers from Government of Canada	3,398	3,077	3,392	(321)	(315)
Investment income	1,767	3,013	2,348	1,246	665
Net income from commercial operations	2,094	2,474	2,192	380	282
Premiums, fees and licences	1,752	1,888	1,818	136	70
Increase in equity of SUCH sector organizations	n/a	540	345	n/a	195
Other	497	609	578	112	31
Total Revenue	**32,408**	**38,557**	**35,887**	**5,609**	**2,670**

[a] Final cost of the *Alberta 2005 Resource Rebate* was $22 million less than reported in 2005-06. The $22 million is included in 2006-07 revenue.

NON-RENEWABLE RESOURCE REVENUE

- Non-renewable resource revenue was almost $12.3 billion in 2006-07, about $2.1 billion lower than the record level reached in 2005-06. Resource revenue was $906 million higher than the budget estimate.
- In 2006-07, the oil price was higher than estimated in the budget or expected by most energy forecasters, while the natural gas price was lower than expected.
- Natural gas prices averaged Cdn$5.94 per gigajoule, $2.35 lower than in 2005-06 and $1.56 lower than budgeted. As a result, natural gas royalties were $1.2 billion lower than estimated in the budget and $2.4 billion lower than in 2005-06.
- Oil prices averaged US$64.89 per barrel (WTI). This was $4.95 higher than in 2005-06 and $14.89 higher than the budget estimate. As a result, oil royalties were $1.1 billion higher than estimated in the budget and $1.4 billion higher than in 2005-06.
- Revenue from bonuses and sales of Crown leases was $1 billion less than the record level reached in 2005-06, but $1 billion higher than estimated in the budget.
- There has been a dramatic increase in oil prices and significant volatility in natural gas prices over the last eight years. Partly offsetting the impact of higher energy prices has been the strengthening Canadian dollar relative to the United States dollar.

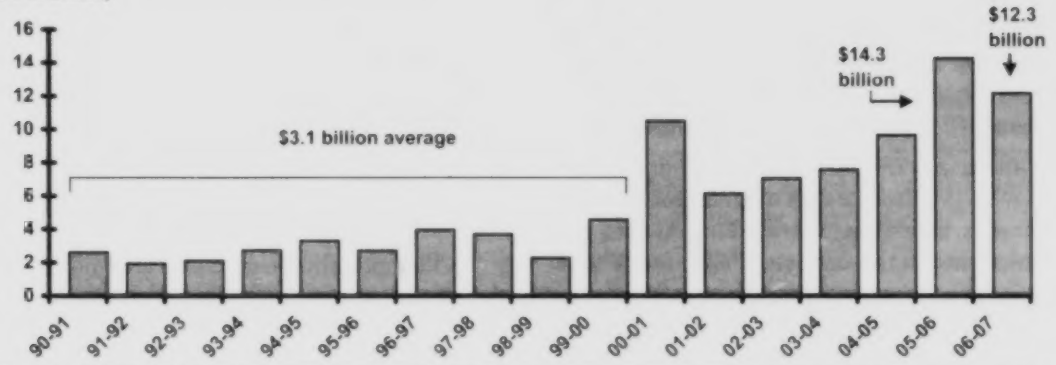
Energy Prices and Exchange Rates

1996-97 to 2006-07

	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Oil Price (WTI US$/bbl)	22.84	18.93	13.70	23.16	30.20	24.13	29.04	31.38	45.03	59.94	64.89
Natural Gas Price (CDN$/GJ)	1.69	1.76	1.89	2.52	5.76	3.57	4.72	5.45	6.05	8.29	5.94
Exchange Rate (US¢/Cdn$)	73.1	71.3	66.6	68.0	66.5	63.9	64.6	74.0	78.4	83.9	87.9

Non-Renewable Resource Revenue

(billions of dollars)



TAX REVENUE

- Tax revenue was $14.7 billion in 2006-07, $3.8 billion higher than in 2005-06, and $3.2 billion higher than budgeted. The increase from 2005-06 was partly due to the deduction in 2005-06 for the $1.3 billion *Alberta 2005 Resource Rebate*.
- **Personal income tax revenue** was $7.6 billion. This was both $1.6 billion higher than budgeted and than in 2005-06 (excluding the *Alberta 2005 Resource Rebate*). The increase reflected strong personal income growth and updated assessment data for the 2005 tax year (which resulted in a $662 million positive prior years' adjustment). The 2006-07 increase in base personal income tax revenue (excluding prior years' adjustments) was 12.3%.
- **Corporate income tax revenue** was a record $3.6 billion in 2006-07. This was $689 million or 23.6% higher than in 2005-06, and $1.4 billion higher than the budget estimate. The increases were primarily due to continued strength in energy prices, stronger corporate profits and economic growth.
- **Other tax revenue** was $3.5 billion, $195 million or 6% higher than in 2005-06, and $148 million higher than the budget estimate. Revenue from most other taxes was up, primarily due to increased population, consumption or volumes.

TRANSFERS FROM GOVERNMENT OF CANADA

- Federal transfers were $3.1 billion, $315 million lower than in 2005-06, and $321 million lower than the budget estimate.
- The decreases reflected lower health and social transfers, primarily due to the impact of higher provincial income tax revenue, as well as lower agriculture transfers. These were partly offset by additional transfers for public transit, housing and post-secondary infrastructure.

INVESTMENT INCOME

- Investment income was a record $3 billion in 2006-07. This was an increase of $665 million or 28.3% from 2005-06, and over $1.2 billion from budget. The increases reflected continued strong equity markets and larger fund balances in the Heritage Fund, endowments and investment accounts.

NET INCOME OF SUCH SECTOR ORGANIZATIONS

- Net income attributed to Crown-controlled SUCH sector organizations was $540 million, $195 million higher than in 2005-06.
- $362 million of the net income was attributable to post-secondary organizations, $146 million to regional health authorities and health boards, and $32 million to school boards.

OTHER REVENUE

- Revenue from all other sources was $5 billion, $383 million higher than in 2005-06 and $628 million higher than estimated in the budget.
- The increases were primarily due to higher gaming and liquor revenue, an increase in the net income of Alberta Treasury Branches and higher revenue from premiums, fees and licences.

ALBERTA SUSTAINABILITY FUND

- **Transfers into the Fund.** The Sustainability Fund receives non-renewable resource revenue above the level available for budget purposes ($5.3 billion in 2006-07) and any additional year-end surpluses, less required adjustments.
- **Withdrawals from the Fund.** Withdrawals are allowed to offset the cost of emergencies/disasters, natural gas rebates, First Nations settlements and revenue shortfalls. In 2006-07, $854 million was withdrawn to pay for emergencies/disasters (primarily agriculture assistance, wildfires and mountain pine beetle infestations) and natural gas rebates.
- **Adjustments.** The cash transferred to the Sustainability Fund was adjusted for:
  - Retained income of funds and agencies. $762 million was retained by funds and agencies, primarily Alberta Treasury Branches, the Agriculture Financial Services Corporation, Alberta Gaming and Liquor Corporation and the endowment funds.
  - Cash requirements for capital investment. $692 million was required to fund government-owned capital projects.
  - Other cash adjustments. $452 million, mainly reflected the difference between cash and accrued revenue and expenditure.
  - SUCH sector. $540 million increase in equity was retained by SUCH sector organizations.
  - Pension provisions. The $158 million increase in pension provisions was a non-cash requirement.
- **Assets Available for Allocation.** When the Fund exceeds $2.5 billion, assets can be allocated for other purposes. Allocations in 2006-07 included $2.7 billion to savings and $2.3 billion to the Capital Account to fund future capital commitments. This includes the $682 million that will be transferred in 2007-08 from the higher 2006-07 fourth quarter results.

The Fund had assets of $7.7 billion at March 31, 2007. This was $3.6 billion higher than at March 31, 2006.

Sustainability Fund

(millions of dollars)

	2006-07 Actual	2005-06 Actual
Assets at start of year	**4,083**	**3,498**
Transfers to (withdrawals from) Sustainability Fund		
Non-renewable resource revenue transfer from general revenue	6,960	9,597
Other net transfers	5,294	3,254
Cost of *Alberta 2005 Resource Rebate*	-	(1,323)
Withdrawals for disasters/emergencies/natural gas rebates	(854)	(1,037)
Cash transferred from previous year fourth quarter results	1,095	696
Resource revenue used for current-year capital grants through Capital Account	(2,508)	(1,795)
Net transfers (withdrawals)	**9,987**	**9,392**
Adjustments		
Cash adjustments	452	(300)
Retained income of funds and agencies	(762)	(522)
Cash requirements for capital investment	(692)	(494)
Increase in equity of SUCH sector	(540)	(345)
Pension provisions	158	200
Total adjustments	**(1,384)**	**(1,461)**
Assets prior to allocation	**12,686**	**11,429**
Allocation to		
Savings	(2,503)	(2,682)
Capital Account - future-year use	(1,848)	(3,569)
Cash from fourth quarter results transferred after March 31		
Sustainability Fund	-	(1,095)
Savings	(227)	-
Capital Account	(455)	-
Assets at End of Year	**7,653**	**4,083**

NET FINANCIAL AND CAPITAL ASSETS

- At March 31, 2007, the assets of the Government of Alberta exceeded its liabilities by $46.6 billion. This included $12.4 billion in capital assets and $3.7 billion in equity in Crown-controlled SUCH sector organizations.

Financial assets

- Financial assets at March 31, 2007 were $54.7 billion. This included:
  - Heritage Fund. $15 billion (book value). Includes $1 billion for the advanced education endowment.
  - Endowment funds. $3.4 billion.
  - Sustainability Fund. $7.7 billion.
  - Capital Account. $6.1 billion, plus $455 million to be transferred from Other Financial Assets (cash) in 2007-08.
  - Debt Retirement Account. $2 billion set aside to be used to repay the Province's remaining accumulated debt as it matures.
  - Self-supporting lending organizations. $7.3 billion in financial assets of Alberta Capital Finance Authority and Agriculture Financial Services Corporation. These assets offset the liabilities of the lending organizations.
  - Equity in commercial enterprises. $2.1 billion, primarily equity in Alberta Treasury Branches.
  - Equity in Crown-controlled SUCH sector organizations. $3.7 billion, including $2.8 billion in post-secondary institutions, $412 million in school boards and $502 million in health authorities.

Capital Account

(millions of dollars)

	2006-07	2005-06
Assets start of year	4,243	674
Allocation to Capital Account	5,048	5,858
Withdrawals		
Local authorities capital	(2,508)	(1,795)
Government-owned capital	(692)	(494)
Assets end of year[a]	**6,091**	**4,243**

[a] In addition $455 million will be added to the Capital Account in 2007-08 from the higher- than-forecast 2006-07 fourth quarter results.

  - Other financial assets. $7.4 billion, of which $455 million will be transferred to the Capital Account in 2007-08 and $277 million will be transferred to a savings vehicle. The remaining $6.7 billion represents accounts and interest receivable, natural gas royalty deposits, and cash associated with future liabilities including federal transfers and corporate income tax refunds.

Liabilities

- Liabilities at March 31, 2007 amounted to $20.6 billion. This included:
  - Pension obligations. $5.6 billion, of which $4.6 billion was related to the Teachers' Pension Plans.
  - Self-supporting lending organizations. $6.7 billion in liabilities of Alberta Capital Finance Authority and Agriculture Financial Services Corporation, whose financial assets offset these liabilities.
  - Accumulated debt. $2 billion, fully offset by the financial assets of the Debt Retirement Account. Most of the accumulated debt will mature and be repaid by 2013.
  - Accounts and interest payable and other liabilities. $6.3 billion. Includes natural gas royalty and security deposits, liabilities for government-owned capital, unearned revenue and trade payables and liabilities. There is an offsetting relationship between some of these liabilities and Other Financial Assets.

Accumulated Debt

(millions of dollars)

	2006-07	2005-06
Debt at start of year	2,195	3,475
Repayment of debt maturities	(165)	(1,280)
Debt at end of year	2,030	2,195
Less: Debt Retirement Account	(2,035)	(2,197)
Accumulated Debt[a]	**(5)**	**(2)**

[a] Based on actual year-end results at March 31, the assets in the Debt Retirement Account exceeded unmatured accumulated debt.

Balance Sheet Details

(millions of dollars)

	At March 31		
	2007 Actual	2006 Actual	Change from 2006 Actual
Financial Assets			
Total Heritage Fund equity	**15,028**	13,495	1,533
Less internal holdings of debt	**-**	(81)	81
Heritage Fund external investments	**15,028**	13,414	1,614
Endowment funds			
Alberta Heritage Foundation for Medical Research Endowment	**1,370**	1,129	241
Alberta Heritage Science and Engineering Research Endowment	**836**	677	159
Alberta Heritage Scholarship Fund	**576**	521	55
Alberta Cancer Prevention Legacy Fund	**491**	-	491
Energy Innovation Fund	**175**	-	175
Sustainability Fund	**7,653**	4,083	3,570
Capital Account	**6,091**	4,243	1,848
Debt Retirement Account	**2,035**	2,197	(162)
Self-supporting lending organizations			
Alberta Capital Finance Authority	**5,098**	4,774	324
Agriculture Financial Services Corporation	**2,173**	1,843	330
Equity in commercial enterprises			
Alberta Treasury Branches	**1,623**	1,349	274
Other commercial enterprises	**468**	370	98
Net equity of SUCH sector organizations	**3,679**	3,139	540
Other financial assets			
Student loans	**188**	153	35
Fourth Quarter cash committed to Sustainability Fund/Savings/Capital Account	**682**	1,095	(413)
Other cash, marketable securities and accounts receivable	**6,527**	5,938	589
Total Financial Assets	**54,693**	44,925	9,768
Liabilities			
Accumulated debt			
General Revenue Fund	**2,556**	2,538	18
Alberta Social Housing Corporation	**321**	422	(101)
School construction loans	**315**	381	(66)
Less General Revenue Fund holdings of provincial corporations' debt	**(1,162)**	(1,146)	(16)
Accumulated debt	**2,030**	2,195	(165)
Pension obligations	**5,593**	5,435	158
Self-supporting lending organizations			
Alberta Capital Finance Authority	**5,098**	4,774	324
Debt held by Agriculture Financial Services Corporation (AFSC)	**635**	540	95
Debt held by General Revenue Fund on behalf of AFSC	**920**	884	36
Other liabilities			
Liabilities for government-owned capital (P3s)	**252**	126	126
Natural gas royalty deposits	**992**	788	204
Liability for corporate income tax payables	**617**	264	353
Federal transfers obligations	**487**	521	(34)
Accounts and interest payable and other liabilities	**3,936**	3,376	560
Total Liabilities	**20,560**	18,903	1,657
Net Financial Assets	**34,133**	26,022	8,111
Capital assets and inventories of supplies	**12,333**	11,552	781
Transfer of arterial highways from City of Edmonton (capital assets) [a]	**96**	-	n.a.
Net Assets [a]	**46,562**	37,574	8,892
Adjustment for SUCH sector organizations	**(3,679)**	(3,139)	(540)
Adjustment for pension obligations	**5,593**	5,435	158
Net Assets for Fiscal Policy Purposes [a]	**48,476**	39,870	8,510

[a] There is a balance sheet adjustment for the transfer of $96 million in arterial highways from the City of Edmonton to the Province. The 'Change from 2006 Actual' column excludes this balance sheet adjustment. The change in Net Assets and Net Assets for Fiscal Policy Purposes is equal to the surplus in 2006-07.

Historical Fiscal Summary, 1986-87 to 2006-07[a]

(millions of dollars)

		A 1986-87	B 1987-88	C 1988-89	D 1989-90	E 1990-91	F 1991-92	G 1992-93	H 1993-94	I 1994-95	J 1995-96	K 1996-97	L 1997-98	M 1998-99	N 1999-00	O 2000-01	P 2001-02	Q 2002-03	R 2003-04	S 2004-05	T 2005-06	U 2006-07
INCOME STATEMENT																						
	Revenue																					
1	Personal income tax [b]	1,768	2,236	2,039	2,536	2,796	3,057	2,794	2,877	3,063	3,177	3,445	3,877	4,601	5,100	3,943	4,183	4,834	4,613	4,649	4,677	7,622
2	Corporate income tax	396	595	697	700	803	731	637	854	1,073	1,332	1,407	1,849	1,659	1,255	2,023	2,229	2,019	1,696	2,364	2,917	3,606
3	School property tax	686	729	769	824	915	1,027	1,115	1,168	1,196	1,205	1,169	1,212	1,118	1,128	1,151	1,094	1,113	1,178	1,247	1,283	1,330
4	Other tax revenue	262	553	679	683	878	1,029	1,055	1,053	1,126	1,112	1,157	1,218	1,178	1,241	1,386	1,469	1,633	1,838	1,918	1,990	2,138
5	Resource revenue	1,892	2,626	2,085	2,240	2,688	2,022	2,183	2,817	3,378	2,786	4,034	3,778	2,368	4,650	10,586	6,227	7,130	7,676	9,744	14,347	12,260
6	Investment income	1,965	1,847	1,834	1,891	2,125	2,155	1,711	1,837	1,567	1,724	1,616	1,747	1,610	1,906	1,353	788	(462)	1,838	1,809	2,348	3,013
7	Other own-source revenue	959	1,407	1,662	2,022	1,615	1,566	2,319	2,710	2,832	2,431	2,473	2,890	2,950	3,183	3,272	3,672	4,321	4,122	4,378	4,588	4,971
8	Total own-source revenue	7,928	9,993	9,765	10,896	11,820	11,587	11,814	13,316	14,235	13,767	15,301	16,571	15,484	18,463	23,714	19,662	20,588	22,961	26,109	32,150	34,940
9	Federal transfers	1,689	1,912	2,135	1,943	2,365	2,150	2,457	2,090	1,929	1,748	1,351	1,183	1,335	1,640	1,813	2,264	2,074	2,926	3,219	3,392	3,077
10	Total Revenue	9,617	11,905	11,900	12,839	14,185	13,737	14,271	15,406	16,164	15,515	16,652	17,754	16,819	20,103	25,527	21,926	22,662	25,887	29,328	35,542	38,017
	Expense by Function [c]																					
11	Health	3,244	3,114	3,372	3,631	3,895	4,129	4,352	4,194	3,928	3,773	4,006	4,401	4,660	5,341	5,946	6,846	6,917	7,634	9,060	9,709	10,878
12	Basic / advanced education	3,114	3,118	3,227	3,379	3,532	3,676	3,904	4,036	3,756	3,713	3,738	4,081	4,241	4,735	5,040	6,099	5,461	5,850	6,370	6,900	7,976
13	Social services	1,270	1,329	1,434	1,502	1,567	1,746	1,889	1,721	1,495	1,456	1,511	1,564	1,560	1,668	1,790	1,942	2,108	2,265	2,458	2,707	2,931
14	Other program expense	5,725	5,137	5,077	5,328	5,741	5,501	6,031	5,172	4,301	3,739	3,446	3,727	3,885	4,612	5,200	5,184	5,567	5,731	5,963	7,427	7,507
15	Total program expense	13,353	12,698	13,110	13,840	14,735	15,052	16,176	15,123	13,480	12,681	12,701	13,773	14,346	16,356	17,976	20,071	20,053	21,480	23,851	26,743	29,292
16	Debt servicing costs	297	572	797	1,115	1,282	1,314	1,419	1,654	1,746	1,683	1,462	1,322	1,379	956	980	774	476	271	302	248	215
17	Total Expense	13,650	13,270	13,907	14,955	16,017	16,366	17,595	16,777	15,226	14,364	14,163	15,095	15,725	17,312	18,956	20,845	20,529	21,751	24,153	26,991	29,507
18	**Net Revenue (Spending)**	**(4,033)**	**(1,365)**	**(2,007)**	**(2,116)**	**(1,832)**	**(2,629)**	**(3,324)**	**(1,371)**	**938**	**1,151**	**2,489**	**2,659**	**1,094**	**2,791**	**6,571**	**1,081**	**2,133**	**4,136**	**5,175**	**8,551**	**8,510**
BALANCE SHEET																						
19	Net Financial Assets (Debt)[d]	7,784	6,419	4,412	2,296	464	(2,165)	(7,054)	(8,313)	(7,355)	(6,255)	(3,728)	(1,089)	(63)	2,654	9,042	9,814	11,696	15,607	20,398	28,318	36,047
20	Capital Assets [e]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8,220	7,669	7,411	7,292	7,215	7,218	7,259	8,002	10,141	10,309	10,534	10,921	11,552	12,429
21	**Net Assets (Debt)** [d]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(93)	314	1,156	3,564	6,126	7,155	9,913	17,044	19,955	22,005	26,141	31,319	39,870	48,476
22	Pension obligations	6,625	7,946	8,004	8,243	6,156	5,774	4,770	5,066	5,352	5,352	4,981	4,890	4,813	4,728	4,742	4,771	4,927	5,059	5,235	5,435	5,593
23	**Accumulated Debt** [f]	10,091	11,105	13,069	15,527	16,647	17,406	20,305	22,701	21,451	20,531	17,733	14,976	14,106	12,020	8,195	5,261	4,736	3,730	—	—	—
24	Sustainability Fund assets																	—	2,500	3,498	4,083	7,653
25	Capital Account assets																	910	1,180	674	4,243	6,091

a Numbers have been restated on 2006-07 basis where possible. Numbers for 2001-02 forward are fully comparable. For the period 1992-93 to 2000-01, numbers are essentially comparable to the 2006-07 presentation with exception of the treatment of disposal of capital assets, which results in revenue being overstated by approximately $600 million over the nine year period on a comparable basis. Prior to 1992-93, spending is on an expenditure basis, using actual capital spending rather than capital amortization costs. Revenue excludes the change in the equity of SUCH sector organizations. Expense excludes change in pension provisions.

b The $1.3 billion cost of the *Alberta 2005 Resource Rebate* is netted against personal income tax revenue in 2005-06.

c Beginning in 1996-97, valuation adjustments have been allocated by function. In prior years, all valuation adjustments were included in other program expense.

d Excludes pension obligations and equity in SUCH organizations. Net debt was increased by $1,474 million in 1992-93 primarily for a provision for school construction debt, reduced by $125 million in 1993-94 to record personal income tax and established programs financing entitlements on an accrual basis, and increased by $32 million in 1995-96 to report some other revenues on accrual basis.

e Capital Assets information not available prior to 1992-93. In 1994-95, includes the disposal of $449 million in capital assets, (primarily transfer of secondary highways to municipalities). 2000-01 and 2001-02 include transfers of $587 million and $1.8 billion of secondary highways from municipalities to the Province. During 2006-07, $96 million of arterial highways were transferred from the City of Edmonton to the Province.

f Net of cash set aside for future debt repayments. In 2001-02, the amount of $5,261 million includes commitment of $414 million to debt retirement based on a higher-than -expected year-end cushion. This amount was transferred in 2002-03 from other assets.

2006-07 Ministry Expense by Function[a]

(millions of dollars)

	Health	Education	Social Services	Transportation [b]	Economic Development [c]	Protection of Persons and Property	Regional Planning and Development	Recreation and Culture	Housing	Environment	General Government	Debt Servicing Costs	Total Expense
Legislative Assembly	-	-	-	-	-	-	-	-	-	-	70	-	70
Advanced Education and Technology	-	2,315	-	-	191	-	-	-	-	-	-	-	2,506
Agriculture and Food	-	-	-	-	1,068	-	-	-	-	-	-	45	1,113
Children's Services	-	-	900	-	-	-	-	-	-	-	-	-	900
Education	-	5,422	-	-	-	-	-	-	-	-	-	6	5,428
Employment, Immigration and Industry	-	234	473	-	137	41	2	-	-	-	1	-	888
Energy	-	-	-	9	157	-	-	-	-	13	44	-	223
Environment	-	-	-	-	-	-	-	-	-	151	-	-	151
Executive Council	-	-	-	-	-	-	-	-	-	-	21	-	21
Finance	55	-	-	-	23	26	296	-	-	-	230	141	771
Health and Wellness	10,705	-	-	-	-	-	-	-	-	-	-	-	10,705
Infrastructure and Transportation	29	5	-	2,160	19	39	3	-	2	26	393	-	2,676
International, Intergovernmental and Aboriginal Relations	-	-	-	-	14	-	41	-	-	-	10	-	65
Justice	-	-	60	-	-	271	-	-	-	-	-	-	331
Municipal Affairs and Housing	-	-	23	-	-	50	58	24	211	-	32	23	421
Seniors and Community Supports	89	-	1,457	-	-	-	-	-	49	-	-	-	1,595
Service Alberta	-	-	-	-	3	83	-	-	-	-	174	-	260
Solicitor General and Public Security	-	-	18	-	-	434	-	2	-	-	-	-	454
Sustainable Resource Development	-	-	-	-	183	258	-	-	-	28	-	-	469
Tourism, Parks, Recreation and Culture	-	-	-	-	164	6	-	282	-	-	-	-	452
Treasury Board	-	-	-	-	-	-	-	-	-	-	8	-	8
Total Expense	**10,878**	**7,976**	**2,931**	**2,169**	**1,959**	**1,208**	**400**	**308**	**262**	**218**	**983**	**215**	**29,507**

a Excludes pension provisions.

b Transportation, Communications and Utilities.

c Agriculture, Resource Management and Economic Development.

Consolidated Financial Statements

Annual Report 2006-2007

Alberta

Consolidated Financial Statements of the Province of Alberta

Year ended March 31, 2007

INTRODUCTION

The financial statements in this annual report of the Government of Alberta are consolidations of ministry consolidated financial statements, which themselves are consolidations of the financial statements of departments, regulated funds, Provincial agencies, Crown-controlled corporations and SUCH sector organizations, for which separate or summary financial statements are presented in ministry annual reports. SUCH is an acronym for schools, universities, colleges and hospitals. However, the term "Crown-controlled SUCH sector organizations" is used to describe a much broader list of organizations, including school boards, technical institutes, regional health authorities, and other health boards. A listing of these organizations is provided in Schedule 16 of the financial statements.

The method of consolidation is described in the Accounting Policies note (Note 1) that forms part of the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Responsibility for the integrity and objectivity of the consolidated financial statements of the Province of Alberta rests with the government. The consolidated financial statements are prepared by the Controller under the general direction of the Secretary of the Treasury Board as authorized by the President of the Treasury Board pursuant to the *Financial Administration Act*. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector, and of necessity include some amounts that are based on estimates and judgements. As required by the *Government Accountability Act*, the consolidated financial statements are included in the consolidated annual report of the Government of Alberta that forms part of the Public Accounts.

To fulfill its accounting and reporting responsibilities, the government maintains systems of financial management and internal control which give consideration to costs, benefits and risks, and which are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability for public money, and
- safeguard the assets and properties of the Province of Alberta under government administration.

Under the *Financial Administration Act*, deputy heads are responsible for the collection of revenue payable to the Crown, and for making and controlling disbursements with respect to their departments. They are also responsible for prescribing the accounting systems to be used in their departments. In order to meet government accounting and reporting requirements, the Controller obtains information relating to departments, regulated funds, Provincial agencies, Crown-controlled corporations, schools, universities, colleges, technical institutes, regional health authorities and health boards from ministries as necessary.

The consolidated financial statements are reviewed by the Audit Committee established under the *Auditor General Act*. Under the *Fiscal Responsibility Act*, the Audit Committee must report publicly to the Executive Council on the progress made in eliminating the accumulated debt. The Audit Committee advises the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of the consolidated financial statements of the Province.

The Auditor General of Alberta provides an independent opinion on the consolidated financial statements prepared by the government. The duties of the Auditor General in that respect are contained in the *Auditor General Act*.

Annually, the consolidated annual report is tabled in the Legislature as a part of the Public Accounts and is referred to the Standing Committee on Public Accounts of the Legislative Assembly.

Approved by:

Brian Manning
Secretary of the Treasury Board

Doug Lynkowski, CA
Controller

Edmonton, Alberta
June 19, 2007

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Province of Alberta as at March 31, 2007 and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended. These financial statements are the responsibility of the Government of Alberta and are prepared on its behalf by the Ministry of Treasury Board management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Province of Alberta as at March 31, 2007 and the results of its operations, change in its net financial assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

Edmonton, Alberta
June 19, 2007

Fred J. Dunn FCA
Auditor General

Consolidated Statement of Operations

Year Ended March 31, 2007

	2007		2006
	Budget	**Actual**	**Actual**
		In millions	
Revenues (Schedule 1)			
Income taxes	$ 8,226	$ 11,228	$ 7,594
Other taxes	3,320	3,468	3,27[illegible]
Non-renewable resource revenue	11,354	12,260	14,347
Transfers from Government of Canada	3,398	3,077	3,392
Net income from commercial operations	2,094	2,474	2,192
Net investment income	1,767	3,013	2,348
Premiums, fees and licences	1,752	1,888	1,818
Other	497	609	578
Revenues for fiscal plan purposes	32,408	38,017	35,542
Increase in equity in Crown-controlled SUCH sector organizations (Schedule 8)		540	345
Revenues for financial statement purposes		38,557	35,887
Expenses by function (Note 5, Schedules 2 and 3)			
Health	10,462	10,878	9,709
Education	7,628	7,976	6,900
Social services	2,952	2,931	2,707
Transportation, communications and utilities	2,043	2,169	2,328
Agriculture, resource management and economic development	1,845	1,959	1,816
Protection of persons and property	999	1,208	1,162
Regional planning and development	410	400	410
Recreation and culture	323	308	355
Housing	199	262	293
Environment	202	218	198
General government	1,004	983	865
Debt servicing costs	245	215	248
Pension provisions	147	158	200
	28,459	29,665	27,191
Excess of revenues over expenses for the year (Note 5)	$ 3,949	8,892	8,696
Net assets at beginning of year		37,574	28,878
Transfer of infrastructure assets (Schedule 14(e))		96	-
Net assets at end of year		$ 46,562	$ 37,574

The accompanying notes and schedules are part of these financial statements.

Consolidated Statement of Financial Position

As at March 31, 2007

	2007	2006
	In millions	
Financial assets		
Cash and temporary investments (Schedule 5)	$ 5,956	$ 6,197
Accounts and accrued interest receivable	3,874	3,837
Portfolio investments (Schedule 6)	32,747	24,293
Equity in commercial enterprises (Schedule 7)	2,179	1,805
Equity in Crown-controlled SUCH sector organizations (Schedule 8)	3,679	3,139
Loans and advances (Schedule 9)	6,239	5,629
Inventories for resale	19	25
	54,693	44,925
Liabilities		
Accounts and accrued interest payable	6,836	5,613
Unmatured debt (Note 6 and Schedule 10)	2,634	2,617
Debt of Alberta Capital Finance Authority (Schedule 11)	4,974	4,656
Pension obligations (Schedule 12)	5,593	5,435
Other accrued liabilities (Schedule 13)	523	582
	20,560	18,903
Net financial assets	34,133	26,022
Non-financial assets		
Tangible capital assets (Schedule 14)	12,393	11,520
Inventories of supplies	36	32
	12,429	11,552
Net assets (Note 5)	$ 46,562	$ 37,574

The accompanying notes and schedules are part of these financial statements.

Consolidated Statement of Change in Net Financial Assets

Year Ended March 31, 2007

	2007	2006
	In millions	
Excess of revenues over expenses for the year	$ 8,892	$ 8,696
Acquisition of tangible capital assets and inventories of supplies	(1,295)	(1,083)
Amortization of tangible capital assets and consumption of inventories of supplies	473	431
Net gain on disposal and write-down of tangible capital assets	(27)	(11)
Proceeds on sale of tangible capital assets	68	32
Increase in net financial assets	8,111	8,065
Net financial assets at beginning of year	26,022	17,957
Net financial assets at end of year	$ 34,133	$ 26,022

The accompanying notes and schedules are part of these financial statements.

Consolidated Statement of Cash Flows

Year Ended March 31, 2007

	2007	2006
	In millions	
Operating transactions		
Excess of revenues over expenses for the year	$ 8,892	$ 8,696
Non-cash items	(598)	(8)
	8,294	8,688
Increase in receivables	(37)	(289)
Increase in payables	1,223	872
Other	(5)	(60)
Cash provided by operating transactions	9,475	9,211
Capital transactions		
Acquisition of tangible capital assets and inventories of supplies	(1,295)	(1,083)
Proceeds on sale of tangible capital assets	68	32
Cash applied to capital transactions	(1,227)	(1,051)
Investing transactions		
Purchase of portfolio investments	(20,361)	(10,659)
Disposals of portfolio investments	12,410	5,494
Loans and advances made	(3,523)	(1,011)
Repayment of loans and advances	2,730	684
Cash applied to investing transactions	(8,744)	(5,492)
Financing transactions		
Debt retirement	(6,694)	(6,635)
Debt issues	6,949	5,756
Cash provided by (applied to) financing transactions	255	(879)
Increase (decrease) in cash and temporary investments	(241)	1,789
Cash and temporary investments at beginning of year	6,197	4,408
Cash and temporary investments at end of year	$ 5,956	$ 6,197

The accompanying notes and schedules are part of these financial statements.

Notes to the 2006-07 Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

(a) Reporting Entity

These financial statements include the accounts of all organizations that are controlled by the Province, including government sector entities and Crown-controlled SUCH sector organizations. SUCH is an acronym for schools, universities, colleges and hospitals. However, the term "Crown-controlled SUCH sector organizations" is used to describe a much broader list of organizations, including school boards, technical institutes, regional health authorities, and other health boards.

A listing of these organizations is provided in Schedule 16.

(b) Method of Consolidation

The accounts of government sector entities, except those designated as commercial enterprises, are consolidated using the full consolidation method. Revenue and expense transactions, capital, investing and financing transactions, and related asset and liability accounts between consolidated entities have been eliminated.

The accounts of Provincial agencies designated as commercial enterprises and Crown-controlled SUCH sector organizations are consolidated on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to these entities. Under the modified equity method of consolidation, the accounting polices of consolidated entities are not adjusted to conform with those of the government sector entities. Inter-sector revenue and expense transactions and related asset and liability balances are not eliminated (see Note 11.

The year end of schools, colleges, technical institutes and some Provincial agencies is other than March 31. Transactions of these organizations that have occurred during the period to March 31, 2007, and that significantly affect the consolidation, have been recorded.

(c) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue and included in accounts payable.

Non-renewable resource revenue is reported based on royalties on oil and gas produced during the year.

Transfers from Government of Canada are recognized as revenues when authorized by federal legislation or federal/provincial agreements, eligibility criteria, if any, are met, and a reasonable estimate of the amounts can be made. Payments received in excess of the estimated amounts applicable to the fiscal year are included in accounts payable.

Note 1 (continued)

Expenses

Expenses represent the cost of resources consumed during the year on government operations. Expenses include provisions for amortization of acquired tangible capital assets and expenses incurred in accordance with the terms of approved grant programs, including grants for capital purposes and grants to Crown-controlled SUCH sector organizations from government sector entities. Grants are recognized as expenses when authorized, eligibility criteria, if any, are met, and a reasonable estimate of the amounts can be made.

Pension costs comprise the cost of pension benefits earned by employees during the year, interest on the Province's share of the unfunded pension liability, and the amortization over the expected average remaining service life of employees of deferred adjustments arising from experience gains and losses and changes in actuarial assumptions. Schedule 12 provides additional information on the net unamortized deferred losses relating to pensions.

In the Consolidated Statement of Operations, pension costs of government sector entities which are funded are included in expenses by function and costs which have not been funded are recorded as pension provisions. The pension costs of Crown-controlled SUCH sector organizations are recorded as expenses in each organization's financial statements. Therefore, the pension costs are reflected in the Consolidated Statement of Operations as "Increase in equity in Crown-controlled SUCH sector organizations".

Costs arising from obligations under guarantees and indemnities are recorded as expenses when management determines that the Province will likely be called upon to make payment. The expense represents management's estimate of future payments less recoveries.

The estimated increase or decrease for the year in accrued employee vacation entitlements is also recorded in the appropriate expense function.

Financial Assets

Financial assets are the government's financial claims on external organizations and individuals, loans that government sector entities have made to Crown-controlled SUCH sector organizations, and inventories for resale at the year end.

Temporary investments are valued at the lower of cost or fair value, on an aggregate basis.

Portfolio investments authorized by legislation to provide income for the long term or for other special purposes are recorded at cost. Realized gains and losses on disposals of these investments are included in calculating the excess of revenues over expenses for the year. If an investment loses value that is other than a temporary loss, its recorded value is reduced to reflect the loss. The reduced value is deemed to be the new cost.

Equity in Crown-controlled SUCH sector organizations represents the net assets of these organizations. Net assets include the assets less the liabilities, including deferred contributions, deferred capital contributions, and the related unamortized deferred capital contributions (see Schedule 8).

Loans are recorded at cost less any discounts and allowance for credit loss.

Inventories for resale representing the Province's share of royalty oil in feeder and trunk pipelines are recorded at their net realizable value. Other inventories for resale are valued at the lower of cost, determined on a first-in, first-out basis, and estimated net realizable value.

Liabilities

Liabilities represent present obligations of the government to external organizations and individuals arising from transactions or events occurring before the year end. They are recorded when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Debentures included in unmatured debt are recorded at their face amount less net unamortized discount, which includes issue expenses and hedging costs.

Liabilities also include:

- all financial claims payable by the government at the year end, including payables to Crown-controlled SUCH sector organizations,
- estimates of the present value of the government's obligations for future pension contributions and/or benefits under defined benefit pension plans for current and former provincial and other public sector employees, and certain current and former Members of the Legislative Assembly, including deferred adjustments,
- the government's obligation to provide future funding to school boards to enable them to repay the principal portion of their debentures to the Alberta Capital Finance Authority,
- estimates of the government's liabilities for site remediation and reclamation, and
- accrued employee vacation entitlements.

Non-financial Assets

Non-financial assets are limited to tangible capital assets and inventories of supplies.

Tangible capital assets of commercial enterprises and Crown-controlled SUCH sector organizations are included in the Consolidated Statement of Financial Position within equity in commercial enterprises and equity in Crown-controlled SUCH sector organizations, respectively. Tangible capital assets on the Consolidated Statement of Financial Position are restricted to tangible capital assets the government acquired for cash or for other assets, and donated or transferred assets. Tangible capital assets acquired by right, such as Crown lands, forests, water and mineral resources, are not included.

Tangible capital assets are valued at cost less accumulated amortization. Amortization is provided on a straight line basis over the periods expected to benefit from their use (see Schedule 14). The annual amortization costs are allocated to the functions of the government that employ those assets and reported on the Consolidated Statement of Operations.

Inventories of supplies are valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost.

Derivative Contracts

Income and expense on derivative contracts are recorded as investment income or debt servicing costs. Gains and losses from derivative contracts, which are designated as hedges of market risks for purposes of hedge accounting, are recognized in the same period as the gains and losses of the specific assets and liabilities being hedged. Derivative contracts not designated as hedges for purposes of hedge accounting are recorded at fair value (see Note 4).

Note 1 (continued)

The estimated amounts receivable and payable from derivative contracts are included in accrued interest receivable and payable respectively.

Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year end rate of exchange.

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts.

Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of excess of revenues over expenses for the year.

Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes, health transfers and Canada social transfer entitlements, royalties derived from non-renewable resources and provisions for pensions. The nature of the uncertainty in these items arises from several factors such as:

- the effect on accrued income taxes of the verification of taxable income,
- the effect on accrued entitlements of health transfers and Canada social transfer being separate new entitlements with little historical experience,
- the effect on accrued royalties of the receipt of revised production data and reassessments, and
- the effect on accrued pension obligations of actual experience compared to assumptions.

Personal income tax revenue, totalling $7,600 million (2006 $6,000 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of personal income growth used in determining personal income tax for the current fiscal year is 10.5%.

Corporate income tax revenue, totalling $3,606 million (2006 $2,917 million), see Schedule 1, is subject to measurement uncertainty due primarily to the timing differences between tax collected and future tax assessments. The Province uses a five year moving average of historical corporate income tax refund ratios to estimate net corporate income tax revenue and corporate income taxes payable.

Natural gas and by-products royalty, totalling $5,988 million (2006 $8,388 million), see Schedule 1, is also subject to measurement uncertainty due to statistical analysis of industry data, such as allowable costs incurred by royalty payers, production volumes and royalty rates, in the estimation of natural gas and by-products royalty revenue.

Note 1 (continued)

While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 2 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

The fair values of cash and cash equivalents, accrued interest, receivables, payables and accrued liabilities are estimated to approximate their book values because of their short term nature.

The fair value of loans and advances made under the authority of the *Alberta Capital Finance Authority Act* is based on the net present value of future cash flows discounted using the Authority's current cost of borrowing. The fair value of loans and advances made under the authority of the *Agriculture Financial Services Act* is based on future cash flows discounted using rates equivalent to the market rates on loans with similar terms and credit risk. Fair values of some of the other loans and advances are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair values with sufficient reliability.

The fair value of unmatured debt and debt of Alberta Capital Finance Authority is an approximation of its fair value to the holder.

The methods used to determine the fair values of temporary and portfolio investments are as follows:

Public fixed-income securities and equities are valued at the year-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Mortgages and certain non-public provincial debentures are valued at the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

The fair value of alternative and private investments is estimated using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models.

Because quoted market prices are not readily available for alternative and private investments and real estate, estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that may ultimately be realized. Accordingly, estimated fair values may differ significantly from the values used if a ready market existed for these investments.

At the year end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated to Canadian dollars at the year end exchange rate.

NOTE 3 FINANCIAL RISK MANAGEMENT

(a) Asset Management

The investments that the Province holds are exposed to credit risk and price risk. Price risk is comprised of currency risk, interest rate risk and market risk. In order to earn the best possible return at an acceptable level of risk, the Province has established policies for the asset mix of its investment portfolios.

The Province reduces its investment risk by holding many different types of assets, investing in securities from various governments and companies in different industries and countries, having quality constraints on fixed income instruments, and restricting amounts exposed to countries designated as emerging markets. The use of derivatives is controlled (see Note 4). There are underlying securities supporting all derivatives. Leveraging is not allowed.

Some of the Province's investments are in the Alberta Heritage Savings Trust Fund (Heritage Fund). Investments also include money allocated to the Heritage Fund under the *Access to the Future Act*. The objective is to invest in a diversified portfolio to maximize long-term returns at an acceptable risk level.

The General Revenue Fund also holds substantial amounts of the Province's investments. General Revenue Fund investments are used to repay debt as it matures, protect operating and capital spending from short term declines in revenue, and provide funding for the capital plan and the costs of emergencies, disasters, natural gas rebates and settlements with First Nations. The investment objective for the General Revenue Fund is to preserve the value of the investments while maintaining appropriate liquidity and earning a fair or reasonable rate of return.

Investments in the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Heritage Scholarship Fund and the Alberta Cancer Prevention Legacy Fund are managed to preserve the capital of the funds over the long term and to provide an annual level of income to intermediary boards responsible for making grants to researchers in the fields of medicine, science, engineering, cancer prevention, and to selected students.

(b) Liability Management

The objective of the Province's liability management program is to achieve the lowest possible cost on its unmatured debt (see Schedule 10). In order to achieve this objective, the Province manages four financial risks: interest rate risk, currency risk, credit risk, and refinancing risk. The Province manages these four risks within approved policy guidelines. The debt of provincial corporations is managed separately.

The Province has decided that, in light of the current debt reduction environment, the best risk management strategy is to allow existing debt instruments to mature according to their terms.

NOTE 4 DERIVATIVE CONTRACTS AND RELATED CREDIT RISK

The Province uses derivative contracts to improve investment return and to manage interest rate and currency risks. Derivative contracts have credit risks that could expose the Province to potential losses. Derivatives in a favourable position have positive fair values which represent amounts owed to the Province by counterparties. Credit risk for derivative contracts is the risk that the counterparty will not pay its obligation when it comes due.

Note 4 (continued)

The total amount of derivatives with a positive fair value represents the total credit risk associated with derivatives. The Province tries to limit its credit exposure by dealing with counterparties with good credit standing. The Province also sets and monitors limits for each counterparty.

The following is a summary of the fair values and maturity schedules of the Province's derivative contracts by type, segregated between contracts in a favourable and unfavourable position:

	Maturity			Contract	Fair Values	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Favourable Position	Unfavourable Position
				In millions		
Interest rate swap contracts	25%	22%	53%	$ 11,979	$ -	$ (8)
Forward foreign exchange contracts	100%	-	-	2,811	-	(3)
Credit default swap contracts	1%	4%	95%	7,724	-	(26)
Cross-currency interest rate swaps	21%	43%	36%	1,247	36	-
Equity and bond index swaps and futures	86%	12%	2%	7,743	113	-
Swap option contracts	65%	25%	10%	5,769	1	-
Total 2007				$ 37,273	$ 150	$ (37)
Total 2006				$ 15,800	$ 263	$ (19)

NOTE 5 BUDGET

The budget amounts were derived from Budget 2006 tabled in the Legislature on March 22, 2006. The following table compares the net financial position of all government sector entities with the March 31, 2007 estimate provided in Budget 2006. The table uses the same grouping of financial assets and liabilities as the budget.

	2007		2006
	Estimate	Actual	Actual
	In millions		
Financial assets			
Heritage Fund external investments	$ 14,699	$ 15,028	$ 13,414
Self-supporting lending organizations (a)	6,324	7,272	6,617
Capital Account (b)	4,243	6,091	4,243
Alberta Sustainability Fund (c)	4,408	7,653	4,083
Endowment funds (d)	2,968	3,448	2,327
Debt Retirement Account (Note 6)	2,041	2,035	2,197
Other financial assets	8,467	9,487	8,905
	43,150	51,014	41,786
Liabilities			
Pension obligations	5,596	5,593	5,435
Self-supporting lending organizations (a)	4,935	5,733	5,298
Accumulated debt (Note 6)	2,037	2,030	2,195
Liabilities for government-owned capital	231	252	126
Accounts and interest payable and other liabilities	5,621	6,952	5,849
	18,420	20,560	18,903
Net financial assets of government sector entities	24,730	30,454	22,883
Tangible capital assets and inventories of supplies	12,461	12,429	11,552
Net assets of government sector entities	37,191	42,883	34,435
Pension obligations	5,596	5,593	5,435
Net assets for fiscal plan purposes	$ 42,787	48,476	39,870
Pension obligations		(5,593)	(5,435)
Equity in Crown-controlled SUCH sector organizations		3,679	3,139
Net assets for financial statement purposes		$ 46,562	$ 37,574

(a) Alberta Capital Finance Authority and Agriculture Financial Services Corporation.

(b) The Capital Account was established to provide funding for the capital plan. Under the Province's fiscal framework, funds can be deposited into the Capital Account in one year to pay for capital projects in the following years.

(c) The Alberta Sustainability Fund was established to help protect operating and capital spending from short term declines in revenue and to fund the costs of emergencies, disasters, natural gas rebates and settlements with First Nations.

(d) Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Science and Engineering Research Endowment Fund, Alberta Heritage Scholarship Fund, Alberta Cancer Prevention Legacy Fund and the Energy Innovation Fund.

Note 5 (continued)

The following table compares the results of operations of all government sector entities with the March 31, 2007 estimate provided in Budget 2006.

	2007		2006
	Estimate	Actual	Actual
		In millions	
Revenues for fiscal plan purposes (Schedule 1)	$ 32,408	$ 38,017	$ 35,542
Expenses (Schedules 2 and 3)	28,459	29,665	27,191
	3,949	8,352	8,351
Adjustment for pension provisions (Schedule 4)	147	158	200
Net revenue for fiscal plan purposes	$ 4,096	8,510	8,551
Adjustment for pension provisions (Schedule 4)		(158)	(200)
Increase in equity in Crown-controlled SUCH sector organizations (Schedules 1 and 8)		540	345
Excess of revenues over expenses for financial statement purposes		$ 8,892	$ 8,696

NOTE 6 FISCAL RESPONSIBILITY LEGISLATION

Since 1999, the *Fiscal Responsibility Act* (the Act) has not allowed the Province to incur a deficit, as defined under the Act, in any fiscal year. Effective April 1, 2005, the Act also requires that the financial assets in the Debt Retirement Account must be equal to or greater than the amount of the accumulated debt at the fiscal year end. During 2006-07, the Province complied with the Act.

Accumulated Debt

The table below shows the balance of accumulated debt at March 31, 2007.

	2007	2006
	In millions	
Unmatured debt (Schedule 10)	$ 2,634	$ 2,617
Funding obligation for school board debentures (Schedule 13)	315	381
Adjustments to conform to statutory definition		
Borrowings for provincial corporations	(919)	(884)
Other	-	81
Accumulated debt at end of year	$ 2,030	$ 2,195

In addition, Note 5 shows that funds amounting to $2,035 million (2006 $2,197 million), at cost, have been set aside in the Debt Retirement Account to retire accumulated debt that has not yet matured.

	2007		2006
	Estimate	Actual	Actual
		In millions	
Accumulated debt at end of year	$ 2,037	$ 2,030	$ 2,195
Funds available for debt repayment	2,041	2,035	2,197
Accumulated debt less funds set aside	$ (4)	$ (5)	$ (2)

NOTE 7 CONTRACTUAL OBLIGATIONS

	2007	2006
	In millions	
Obligations under long-term leases, contracts and programs	$ 23,609	$ 22,430
Loans and advances approved	71	39
	$ 23,680	$ 22,469

Estimated payment requirements for each of the next five years and thereafter are as follows:

	In millions
2007-08	$ 8,039
2008-09	5,542
2009-10	4,263
2010-11	3,096
2011-12	496
Thereafter	2,173
	$ 23,609

Major commitments included in the above figures are commitments for the provision of insured medical services by physicians and commitments for capital construction contracts for health and education facilities and highways. Some contractual obligations of Crown-controlled SUCH sector organizations included in the above figures are supported by funding commitments of related ministries, the amounts of which are not readily determinable.

The government has various commitments relating to the devolution of services or disposition of assets to the private sector. Those commitments include the performance of duties and obligations if the private sector organization fails to meet them.

NOTE 8 CONTINGENT LIABILITIES

Set out below are details of contingent liabilities resulting from guarantees, indemnities and litigation, other than those reported as liabilities and shown in Schedule 13. Any losses arising from the settlement of contingent liabilities are treated as current year expenses.

(a) Indemnities and Guarantees

Guarantees amounting to $103 million (2006 $129 million) are analyzed in Schedule 15.

(b) Contingent Liabilities of Commercial Enterprises

The Credit Union Deposit Guarantee Corporation has a potential liability under guarantees relating to deposits of credit unions. At December 31, 2006 credit unions in Alberta held deposits totalling $11.8 billion (2005 $10.0 billion) and had assets in excess of deposits.

At March 31, 2007, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to $204 million (2006 $145 million).

(c) Legal Actions

At March 31, 2007, the Province was involved in various legal actions, the outcome of which is not determinable. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

Note 8 (continued)

The Province has a contingent liability in respect of thirty claims (2006 thirty-two) concerning aboriginal rights, Indian title and treaty rights. In most cases, these claims have been filed jointly and severally against the Province of Alberta and the Government of Canada, and in some cases involve third parties. Of these claims, seventeen (2006 nineteen) have specified amounts totalling $114.2 billion (2006 $124.9 billion) plus a provision for interest and other costs that is not calculable. The other thirteen claims (2006 thirteen) have not specified any amounts.

The Province was named as a defendant in a legal action concerning the methodology used to calculate pension benefit payments under three public sector pension plans. The claim has been filed jointly and severally against the Province of Alberta and the employers participating in these pension plans. The claim specified an amount of $3.75 billion (2006 $3.75 billion) plus a provision for interest and other costs that is not calculable.

Further, the Province was named as defendant in various other legal actions in addition to those noted above. The total claimed in specific legal actions amounts to approximately $3.9 billion (2006 $4.3 billion).

NOTE 9 TRUST FUNDS UNDER ADMINISTRATION

Trust funds under administration are regulated and other funds consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the funds and administers them for the purposes of various trusts, they are not included in the consolidated financial statements. As at March 31, 2007, trust funds under administration were as follows:

	2007	2006
	In millions	
Public Sector Pension Plan Funds	$ 27,256	$ 24,109
Teachers' Pension Plan Funds	3,979	3,574
The Workers' Compensation Board Accident Fund	2,894	3,317
Regional Health Authorities and various health institutions construction accounts	978	755
Public Trustee	473	480
Special Areas Trust Account	80	75
Various Court Offices and Fines Distribution Trust	67	58
Miscellaneous trust funds	293	252
	$ 36,020	$ 32,620

NOTE 10 DEFINED BENEFIT PLANS

(a) Pension Plans

The government administers three contributory defined benefit pension plans for the current employees of government entities: the Public Service Pension Plan, Management Employees Pension Plan and Supplementary Retirement Plan for Public Service Managers. Pension costs for these plans, which were funded by government sector entities during 2006-07 and included in expenses by function in these financial statements, amounted to $162 million (2006 $146 million).

Benefits paid from these plans are based on length of service and pensionable earnings. The average age of the approximately 47,800 active employees is 44. In addition, there are approximately 10,700 former employees who are entitled to refunds of contributions with interest or

pension benefits when all of the eligibility requirements are met. At present, these plans provide benefits for approximately 21,000 retirees. Benefit payments were $281 million in 2006-07 (2006 $261 million). Total contributions were $365 million in 2006-07 (2006 $334 million), of which employee contributions amounted to $170 million (2006 $158 million).

The government guarantees payment of all benefits under the Management Employees Pension Plan arising from service before 1994.

A separate pension plan fund administered by the government is maintained for each pension plan. Pension plan fund assets are invested in both marketable investments of organizations external to the government and in Province of Alberta bonds and promissory notes.

At December 31, 2006, the Public Service Pension Plan reported a surplus of $153 million (2005 deficiency of $188 million), the Supplementary Retirement Plan for Public Service Managers reported a surplus of $4 million (2005 $10 million), and the Management Employees Pension Plan reported a deficiency of $7 million (2005 $166 million). The extrapolation of unfunded liabilities to March 31, 2007 is analyzed in Schedule 12.

(b) Long Term Disability Income Continuance Plans

The government also administers two long term disability income continuance plans. As at March 31, 2007, these plans taken together reported a surplus of $10.3 million (2006 deficiency of $0.4 million). At March 31, 2007, the government's share of the estimated accrued benefit liability for these plans has been recognized in these financial statements.

NOTE 11 FUTURE CHANGES IN ACCOUNTING POLICIES

Method of Consolidation

The Public Sector Accounting Board has issued standards that require Crown-controlled SUCH sector organizations to be consolidated using the full consolidation method commencing on or before the 2008-09 fiscal year. In a transition period to March 31, 2008, these Crown-controlled organizations are allowed to be consolidated using the modified equity basis of accounting (see Note 1(b)). Had Crown-controlled SUCH sector organizations been fully consolidated with government sector entities at March 31, 2007, consolidated net assets of the Province would have increased by approximately $10.4 billion.

NOTE 12 COMPARATIVE FIGURES

Certain 2006 figures have been reclassified, where necessary, to conform to 2007 presentation.

Schedules to the 2006-07 Consolidated Financial Statements

REVENUES

Schedule 1

	2007		2006
	Budget (Note 5)	Actual	Actual
		In millions	
Income taxes			
Personal income tax	$ 5,999	$ 7,600	$ 6,000
Alberta 2005 resource recovery (rebate)	-	22	(1,323)
Corporate income tax	2,227	3,606	2,917
	8,226	11,228	7,594
Other taxes			
School property tax	1,306	1,330	1,283
Tobacco tax	740	776	719
Fuel tax	643	735	664
Freehold mineral rights tax	386	317	334
Insurance taxes	195	242	215
Alberta tourism levy	50	68	58
	3,320	3,468	3,273
Non-renewable resource revenue			
Natural gas and by-products royalty	7,146	5,988	8,388
Synthetic crude oil and bitumen royalty	1,716	2,411	950
Bonuses and sales of Crown leases	1,479	2,463	3,490
Crude oil royalty	954	1,400	1,463
Rentals and fees	150	159	156
Coal royalty	11	13	11
Royalty tax credit	(102)	(174)	(111)
	11,354	12,260	14,347
Transfers from Government of Canada			
Health transfers	1,888	1,591	1,839
Canada social transfer	678	490	597
Agriculture support programs	303	251	299
Other	529	745	657
	3,398	3,077	3,392
Net income from commercial operations			
Lottery operations	1,300	1,534	1,389
Liquor operations	571	658	597
Other	223	282	206
	2,094	2,474	2,192
Net investment income	1,767	3,013	2,348
Premiums, fees and licences			
Health care insurance premiums	882	926	897
Motor vehicle licences	305	341	312
Crop and hail insurance premiums	124	132	142
Timber rentals and fees	81	51	86
Other	360	438	381
	1,752	1,888	1,818
Other	497	609	578
Revenues for fiscal plan purposes	$ 32,408	38,017	35,542
Increase in equity in Crown-controlled SUCH sector organizations (Schedule 8)		540	345
Revenues for financial statement purposes		$ 38,557	$ 35,887

EXPENSES BY MINISTRY

Schedule 2

	2007 Budget (Note 5)	2007 Actual	2006 Actual [a]
		In millions	
Program expenses			
Offices of the Legislative Assembly	$ 74	$ 70	$ 67
Ministries [a]			
Health and Wellness	10,318	10,705	9,572
Education	5,134	5,422	4,801
Infrastructure and Transportation	2,523	2,676	2,763
Advanced Education and Technology	2,382	2,506	2,022
Seniors and Community Supports	1,634	1,595	1,560
Agriculture and Food	992	1,068	1,054
Children's Services	919	900	811
Employment, Immigration and Industry	898	888	785
Finance	592	630	548
Sustainable Resource Development	238	469	309
Solicitor General and Public Security	453	454	415
Tourism, Parks, Recreation and Culture	480	452	542
Municipal Affairs and Housing	353	398	545
Justice	348	331	299
Service Alberta	270	260	225
Energy	218	223	201
Environment	143	151	140
International, Intergovernmental and Aboriginal Relations	66	65	59
Executive Council	22	21	18
Treasury Board	10	8	7
	28,067	29,292	26,743
Debt servicing costs	245	215	248
Pension provisions [b]	147	158	200
	$ 28,459	$ 29,665	$ 27,191

(a) As the result of program restructuring announced in Budget 2006 and throughout the year, the responsibilities of ministries changed. This schedule is prepared on the basis as if the ministries had always been assigned their current responsibilities. Comparative figures have been reclassified, where necessary, to conform to 2007 presentation.

(b) Pension provisions are related to Education and Finance.

EXPENSES BY OBJECT

Schedule 3

	2007	2006
	In millions	
Grants		
Crown-controlled SUCH sector organizations	$ 13,772	$ 12,447
Other	8,802	7,956
Services	3,219	2,965
Salaries, wages, employment contracts and benefits	2,136	1,977
Amortization of tangible capital assets and consumption of inventories of supplies	473	431
Interest and amortization of exchange gains and losses	472	484
Valuation adjustments (Schedule 4)	254	299
Materials and supplies	229	223
Travel and communication	160	159
Pension liability funding	112	215
Other	36	35
	$ 29,665	$ 27,191

VALUATION ADJUSTMENTS

Schedule 4

	2007		2006
	Budget (Note 5)	Actual	Actual
		In millions	
Pension provisions	$ 147	$ 158	$ 200
Provision for losses, doubtful accounts, loans, guarantees and indemnities	89	85	82
Provision for employee benefits other than pensions	8	11	17
	$ 244	$ 254	$ 299

CASH AND TEMPORARY INVESTMENTS

Schedule 5

	2007		2006	
	Book Value	Fair Value	Book Value	Fair Value
		In millions		
Fixed-income securities [a]				
Government of Canada, direct and guaranteed	$ 362	$ 362	$ 142	$ 141
Provincial, direct and guaranteed	523	524	287	287
Corporate	3,354	3,354	2,737	2,738
Pooled investment funds	32	32	27	27
	4,271	4,272	3,193	3,193
Cash and cash equivalents	1,685	1,685	3,004	3,004
	$ 5,956	$ 5,957	$ 6,197	$ 6,197

(a) Fixed-income securities had an average effective market yield of 4.7% per annum (2006 3.9% per annum). All (2006 all) of the securities had terms to maturity of less than one year.

PORTFOLIO INVESTMENTS

Schedule 6

	2007		2006	
	Book Value	Fair Value	Book Value	Fair Value
	In millions			
Fixed-income securities [a][b]				
Government of Canada, direct and guaranteed	$ 2,574	$ 2,579	$ 1,299	$ 1,294
Provincial, direct and guaranteed	3,276	3,290	2,614	2,610
Municipal	172	172	149	148
Corporate	8,566	8,569	4,631	4,611
Pooled investment funds	6,407	6,447	5,176	5,197
	20,995	21,057	13,869	13,860
Equities				
Canadian	3,385	3,908	3,098	3,525
Foreign	5,968	6,578	5,395	6,016
Real estate	1,452	2,078	1,289	1,677
Absolute return strategies	947	1,023	642	645
	11,752	13,587	10,424	11,863
	$ 32,747	$ 34,644	$ 24,293	$ 25,723

(a) The majority of the Province's fixed-income securities are held by the General Revenue Fund. As at March 31, 2007, the General Revenue Fund held $14.59 billion (2006 $8.67 billion) of public fixed-income securities at cost (Fair value $14.61 billion (2006 $8.64 billion)). The securities held have an average effective market yield of 4.2% (2006 4.2%) per annum. 48% (2006 41%) of the securities held had terms to maturity of less than one year.

(b) Fixed-income securities are also held by the Alberta Heritage Savings Trust Fund (Heritage Fund). As at March 31, 2007, the Heritage Fund held $5.02 billion (2006 $4.57 billion) of public fixed-income securities at cost (Fair value $5.06 billion (2006 $4.62 billion)). The securities held have an average effective market yield of 4.7% (2006 4.8%) per annum and the following term structure based on principal amount.

	2007	2006
	%	
Under 1 year	4	3
1 to 5 years	30	30
6 to 10 years	37	35
11 to 20 years	10	13
Over 20 years	19	19
	100	100

EQUITY IN COMMERCIAL ENTERPRISES

Schedule 7

	2007	2006
	In millions	
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 1,719	$ 1,463
Total revenue	4,828	4,175
Total expense	2,354	1,984
Net revenue	2,474	2,191
Net transfers to departments and other adjustments	(2,102)	(1,936)
Accumulated surpluses at end of year	$ 2,091	$ 1,718
Represented by		
Assets		
Loans	$ 16,998	$ 14,846
Investments	1,795	1,486
Other	2,130	1,787
	20,923	18,119
Liabilities		
Accounts payable	507	459
Deposits	18,253	15,870
Unmatured debt	72	72
	18,832	16,401
	$ 2,091	$ 1,718
Equity in commercial enterprises at end of year		
As reported by the entities		
Alberta Treasury Branches	$ 1,623	$ 1,349
Alberta Gaming and Liquor Commission	353	262
Credit Union Deposit Guarantee Corporation	113	105
N.A. Properties (1994) Ltd.	2	2
	2,091	1,718
Elimination of inter fund/agency balances	88	87
	$ 2,179	$ 1,805

EQUITY IN CROWN-CONTROLLED SUCH SECTOR ORGANIZATIONS

Schedule 8

	2007	2006
	In millions	
Equity at beginning of year	$ 3,139	$ 2,794
Transfers from government sector entities	13,000	11,679
Other income	3,109	3,051
Total income	16,109	14,730
Total expenses	15,712	14,507
Net income	397	223
Contributions to endowments	143	122
Increase in equity for the year	540	345
Equity at end of year	$ 3,679	$ 3,139
Represented by		
Assets		
Cash and temporary investments	$ 2,122	$ 1,336
Due from government sector entities	1,042	455
Investments	3,073	2,538
Tangible capital assets	11,065	10,031
Accounts receivable and other assets	1,243	1,627
	18,545	15,987
Liabilities		
Accounts payable and accrued liabilities	1,772	1,536
Debt held by government sector entities	901	591
Other liabilities and unmatured debt	516	813
Deferred contributions (a)	1,310	1,063
Deferred capital contributions (a)	2,188	1,445
Unamortized deferred capital contributions (a)	8,179	7,400
	14,866	12,848
	$ 3,679	$ 3,139
Equity as reported by schools, universities, colleges, technical institutes, regional health authorities and health boards at end of year (b)		
Universities	$ 2,082	$ 1,810
Colleges, technical institutes and The Banff Centre	683	593
Schools	412	380
Regional health authorities and health boards	502	356
	$ 3,679	$ 3,139
Increase in equity for the year as reported by schools, universities, colleges, technical institutes, regional health authorities and health boards		
Universities	$ 272	$ 202
Colleges, technical institutes and The Banff Centre	90	76
Schools	32	1
Regional health authorities and health boards	146	66
	$ 540	$ 345

(a) Crown-controlled SUCH sector organizations follow the deferral method of accounting. Restricted non-capital contributions are deferred and recognized as revenue when related expenses are incurred. Deferred contributions represent restricted non-capital contributions which remain unspent. Capital contributions, including contributions from government sector entities, are recorded as deferred capital contributions until invested in tangible capital assets. Amounts invested are then transferred to the unamortized deferred capital contribution account and recognized as revenue when the related amortization expense of tangible capital assets is recorded.

(b) The principal of externally restricted endowments included in equity must be maintained intact in perpetuity. Investment income earned on externally restricted endowments must be used in accordance with the various purposes established by the donors.

LOANS AND ADVANCES

Schedule 9

	2007	2006
	In millions	
Loans and advances made under the authority of		
Alberta Capital Finance Authority Act (a)	$ 4,941	$ 4,390
Agriculture Financial Services Act (b)	1,014	986
Student Loan Act	260	240
Alberta Heritage Savings Trust Fund Act	188	192
Alberta Housing Act	13	20
Farm Credit Stability Act	4	8
Financial Administration Act	12	9
	6,432	5,845
Less allowance for doubtful accounts	193	216
	$ 6,239	$ 5,629

(a) The fair value of the loans as at March 31, 2007 was $5,360 million (2006 $4,814 million). Municipal loans on average yield 6.0% (2006 6.4%) per annum and have the following term structure as at March 31, 2007.

	2007	2006
	%	
Under 1 year	10	9
1 to 5 years	31	35
6 to 10 years	26	26
Over 10 years	33	30
	100	100

As at March 31, 2007, loans to Crown-controlled schools amounted to $326 million (2006 $393 million).

(b) The fair value of the loans as at March 31, 2007 was $962 million (2006 $956 million). Agricultural loan portfolios on average yield 6.3% per annum (2006 6.6%) per annum and have the following term structure as at March 31, 2007.

	2007	2006
	%	
Under 1 year	11	13
1 to 5 years	38	37
6 to 10 years	26	26
Over 10 years	25	24
	100	100

UNMATURED DEBT

Schedule 10

	2007				2006	
	Effective Rate [a]	Modified Duration [b]	Book Value [a]	Fair Value [a]	Book Value [a]	Fair Value [a]
	%	years	*In millions*			
Direct debt						
Canadian dollar debt and fully hedged foreign currency debt						
Floating rate and short-term fixed rate [c]	4.68	0.33	$ 514	$ 514	$ 367	$ 366
Fixed rate long-term [d]	6.76	3.71	2,043	2,258	2,171	2,423
	6.34	3.09	2,557	2,772	2,538	2,789
Alberta Social Housing Corporation						
Canadian dollar fixed rate debt			77	118	79	118
			$ 2,634	$ 2,890	$ 2,617	$ 2,907

(a) Book value represents the amount the Province owes. Fair value approximates market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate swaps. Effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount. For non-marketable debt, the effective rate and fair value are determined by reference to yield curves for comparable debt.

(b) Modified duration is the weighted average term to maturity of a security's cash flows (i.e. interest and principal). It measures price volatility. The greater a bond's modified duration, the more impact a change in interest rates will have on its value.

(c) Floating rate debt includes short-term debt, term debt with less than one year to maturity, and term debt with interest rate reset within a year.

(d) Canadian dollar fixed rate debt includes $679 million (2006 $679 million) held by the Canada Pension Plan Investment Fund.

Debt principal repayment requirements (based on par value) in each of the next five years, including short-term debt maturing in 2007-08 and thereafter, are as follows:

	In millions
2007-08	$ 350
2008-09	732
2009-10	80
2010-11	330
2011-12	458
Thereafter	690
	2,640
Unamortized discount	6
	$ 2,634

None of the debt has call provisions (2006 none).

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY

Schedule 11

	2007	2006
	In millions	
Canadian dollar fixed rate debt (a)	$ 4,974	$ 4,656

(a) Canadian dollar fixed rate debt includes $1,851 million (2006 $1,921 million) held by the Canada Pension Plan Investment Fund and has the following characteristics as at March 31, 2007 (see Schedule 10 note (a)).

	2007	2006
Fair value (in millions)	$ 5,204	$ 5,016
Effective rate per annum	6.1%	6.3%

Debt principal repayment requirements in each of the next five years, including those maturing in 2007-08 and thereafter, are as follows:

	In millions
2007-08	$ 351
2008-09	259
2009-10	381
2010-11	160
2011-12	323
Thereafter	3,500
	$ 4,974

PENSION OBLIGATIONS

Schedule 12

	2007	2006
	In millions	
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Teachers' Pension Plan (a)	$ 4,567	$ 4,424
Public Service Management (Closed Membership) Pension Plan (b)	723	678
Universities Academic Pension Plan (c)	196	190
Members of the Legislative Assembly Pension Plan (d)	50	49
Management Employees Pension Plan (b)	-	29
Public Service Pension Plan (b)	-	2
	5,536	5,372
Obligations to pension plans for employees of organizations outside the government sector		
Special Forces Pension Plan (c)	57	63
	$ 5,593	$ 5,435

(a) The *Teachers' Pension Plans Act* requires all teachers under contract with public and separate school jurisdictions in Alberta to contribute to the Teachers' Pension Plan. Under the Act, the unfunded liability for service credited prior to September 1, 1992 is being financed by additional contributions in the ratio of 67.35% by the Province and 32.65% by the teachers over the period ending August 31, 2060. In addition, for service after August 1992, the Province funds 50% of the post-1992 unfunded liability, any current service costs and certain cost of living benefits. The Act provides that payment of all benefits prior to September 1, 1992 is guaranteed by the Province.

(b) The Public Service Management (Closed Membership) pension plan provides benefits to former members of the Public Service Management pension plan who were retired, were entitled to receive a deferred pension or had attained 35 years of service before August 1, 1992.

For Management Employees, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totalling 7.2% of pensionable earnings shared between employees and employers until December 31, 2018. Current service costs are funded by employers and employees. The government guarantees payment of all benefits arising from service before 1994.

For Public Service, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totalling 2.92% of pensionable earnings shared equally between employees and employers until December 31, 2020. Current service costs are funded by employers and employees.

(c) Under the *Public Sector Pension Plans Act*, the Province has obligations for payment of additional contributions under defined benefit pension plans for certain employees of post-secondary educational institutions and municipalities. The plans are the Universities Academic and Special Forces pension plans.

For Universities Academic, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions of 1.25% of pensionable salaries by the Province, and contributions by employers and employees to fund the remaining amount, as determined by the plan valuation, over the period ending on or before December 31, 2043. Current service costs are funded by employers and employees.

For Special Forces, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions in the ratio of 45.45% by the Province and 27.27% each by employers and employees, over the period ending on or before December 31, 2036. Current service costs are funded by employers and employees. The Act provides that payment of all benefits arising from pensionable service prior to 1994, excluding post-1991 cost of living adjustment benefits, is guaranteed by the Province.

(d) The Province has a liability for payment of pension benefits under a defined benefit pension plan for certain current and former Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after that date.

Schedule 12 (continued)

Pension obligations are based upon actuarial valuations performed at least triennially using the projected benefit method prorated on services. The assumptions used in the valuations were adopted after consultation between the pension plan boards, the government and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the related employee groups.

Information about the economic assumptions used in the most recent actuarial valuations is provided below for each plan. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan	Latest Valuation	Real Rate of Return %	Inflation Rate %	Investment Rate of Return %
Teachers' Pension Plan	August 31, 2006	4.25	3.00	7.25
Public Service Management (Closed Membership) Pension Plan	December 31, 2005	2.25	2.75	5.00
Universities Academic Pension Plan	December 31, 2004	4.00	2.75	6.75
Members of the Legislative Assembly Pension Plan	March 31, 2006	2.25	2.75	5.00
Management Employees Pension Plan	December 31, 2004	4.00	2.75	6.75
Public Service Pension Plan	December 31, 2005	3.75	3.25	7.00
Special Forces Pension Plan	December 31, 2004	3.75	3.25	7.00

The actuarial valuation of the Teachers' Pension Plan as at August 31, 2006 indicated an actuarial deficiency of actuarial net assets over the actuarial present value of accrued benefits. The unfunded liability was extrapolated to March 31, 2007. The Province's share of the unfunded liability as at March 31, 2007 is comprised of actuarial asset value of $1,877 million (2006 $1,705 million), actuarial liabilities of $6,526 million (2006 $6,331 million) and net unamortized deferred loss of $82 million (2006 $202 million). The actual return on assets was 7.6% for the year ended August 31, 2006.

As at December 31, 2006, the Management Employees Pension Plan reported a deficiency of $7 million (2005 $166 million) and the Public Service Pension Plan reported a surplus of $153 million (2005 deficiency of $188 million). Including deferred gains of $47 million (2006 deferred losses of $99 million), unfunded liabilities were extrapolated to March 31, 2007.

A separate pension plan fund is maintained for each pension plan except for the Members of the Legislative Assembly plan. Pension plan fund assets are invested in both marketable investments of organizations external to the government and in Province of Alberta bonds and promissory notes.

OTHER ACCRUED LIABILITIES

Schedule 13

	2007	2006
	In millions	
Future funding to school boards to enable them to repay debentures issued to Alberta Capital Finance Authority	$ 315	$ 381
Vacation entitlements	200	187
Guarantees, indemnities and remissions		
Guarantees (Schedule 15)	3	7
Remissions for guaranteed student loans (Schedule 15)	1	1
Remissions for non-guaranteed student loans	4	5
	8	13
Other	-	1
	$ 523	$ 582

TANGIBLE CAPITAL ASSETS

Schedule 14

	General capital assets						Infrastructure assets					2007 Total	2006 Total
	Land (a)	Buildings	Computer hardware and software	Equipment (b)	Other (c)	Sub Total	Land improvements (d)	Provincial highways, roads and airstrips (e)	Bridges (e)	Dams and water management structures (f)	Sub Total		
Estimated Useful Life	Indefinite	40 years	5-10 years	3-20 years	20-50 years		10-40 years	50 years	50 years	25-80 years			
	In millions												
Historical Cost													
Beginning of year	$ 1,271	$ 3,211	$ 691	$ 465	$ 237	$ 5,875	$ 202	$ 8,698	$ 962	$ 1,190	$ 11,052	$ 16,927	$ 15,930
Additions	104	167	116	52	36	475	16	663	48	29	756	1,231	1,019
Transfers	-	-	-	-	-	-	-	96	-	-	96	96	-
Disposals including write-downs	(27)	(19)	(2)	(20)	(10)	(78)	-	(2)	-	-	(2)	(80)	(22)
	1,348	3,359	805	497	263	6,272	218	9,455	1,010	1,219	11,902	18,174	16,927
Accumulated Amortization													
Beginning of year	-	1,501	415	153	148	2,217	119	2,563	251	257	3,190	5,407	5,033
Amortization expense	-	68	70	34	11	183	4	186	22	17	229	412	383
Effect of disposals including write-downs	-	(10)	(5)	(17)	(6)	(38)	-	-	-	-	-	(38)	(9)
	-	1,559	480	170	153	2,362	123	2,749	273	274	3,419	5,781	5,407
Net Book Value at March 31, 2007	$ 1,348	$ 1,800	$ 325	$ 327	$ 110	$ 3,910	$ 95	$ 6,706	$ 737	$ 945	$ 8,483	$ 12,393	
Net Book Value at March 31, 2006	$ 1,271	$ 1,710	$ 276	$ 312	$ 89	$ 3,658	$ 83	$ 6,135	$ 711	$ 933	$ 7,862		$ 11,520

(a) Land includes land acquired for parks and recreation, building sites, infrastructure and other program use. It does not include land held for resale or Crown lands acquired by right.

(b) Equipment includes SuperNet, vehicles, heavy equipment, fire protection equipment, office equipment and furniture, and other equipment.

(c) Other tangible capital assets include leasehold improvements (amortized over the life of the lease), rail cars and trailers.

(d) Land improvements include parks development and grazing reserves.

(e) Provincial highways and roads consist of original pavement, roadbed, drainage works and traffic control devices, and include secondary highways and bridges and some key arterial roadways within cities. During the 2006-07 fiscal year, the Province assumed responsibility for $96 million of arterial highways in the City of Edmonton which has been recorded as an adjustment to net assets.

(f) Dams and water management structures include dams, reservoirs, weirs, canals, dikes, ditches, channels, diversions, cut-offs, pump houses and erosion protection structures.

GUARANTEES

Schedule 15

	2007	2006	Expiry Date
	In millions		
Feeder Associations Guarantee Act	$ 44	$ 50	Ongoing
Agriculture Financial Services Act	26	30	Ongoing
Alberta Housing Act	18	29	2011
Student Loan Act	15	22	Ongoing
Farm Credit Stability Act [a]	3	5	2011
University of Calgary	1	1	2016
	107	137	
Less estimated liability (Schedule 13)			
Guarantees	3	7	
Remissions for guaranteed student loans	1	1	
	4	8	
	$ 103	$ 129	

Authorized loan guarantee limits are shown below where applicable. Where authorized loan guarantee limits are not noted, the authorized limits decline as guaranteed or indemnified loans are repaid.

Guarantee programs under the following Acts are ongoing:

- *Feeder Associations Guarantee Act* (authorized guarantee limit set by Order in Council is $55 million),
- *Agriculture Financial Services Act*, and
- *Student Loan Act* (authorized guarantee limit set by Order in Council is $400 million).

The lender takes appropriate security prior to issuing to the borrower a loan which is guaranteed by the Province. The security taken depends on the nature of the loan. Interest rates are negotiated with the lender by the borrower and typically range from prime to prime plus two per cent.

(a) The expiry date shown is the latest expiry date for guaranteed loans under the program. No new program guarantees are being issued under the *Farm Credit Stability Act*.

LISTING OF ORGANIZATIONS

Schedule 16

The financial statements of the following organizations are fully consolidated in these financial statements:

GOVERNMENT SECTOR ENTITIES

Offices of the Legislative Assembly
Support to the Legislative Assembly
Office of the Auditor General
Office of the Ombudsman
Office of the Chief Electoral Officer
Office of the Ethics Commissioner
Office of the Information and Privacy Commissioner

Departments

Agriculture and Food
Advanced Education and Technology
Children's Services
Education
Employment, Immigration and Industry
Energy
Environment
Executive Council
Finance
Health and Wellness
Infrastructure and Transportation
International, Intergovernmental and Aboriginal Relations
Justice
Municipal Affairs and Housing
Seniors and Community Supports
Service Alberta
Solicitor General and Public Security
Sustainable Resource Development
Tourism, Parks, Recreation and Culture
Treasury Board

Regulated Funds

Access to the Future Fund
Alberta Cancer Prevention Legacy Fund [(a)]
Alberta Heritage Foundation for Medical Research Endowment Fund
Alberta Heritage Savings Trust Fund
Alberta Heritage Scholarship Fund
Alberta Heritage Science and Engineering Research Endowment Fund
Alberta Risk Management Fund
Alberta School Foundation Fund
Environmental Protection and Enhancement Fund

Schedule 16 (continued)

Regulated Fund (continued)

Historic Resources Fund
Lottery Fund
Provincial Judges and Masters in Chambers Reserve Fund
Supplementary Retirement Plan Reserve Fund
Victims of Crime Fund

Provincial Agencies

Agriculture Financial Services Corporation
Alberta Alcohol and Drug Abuse Commission
Alberta Capital Finance Authority
Alberta Energy and Utilities Board
Alberta Foundation for the Arts
The Alberta Historical Resources Foundation
Alberta Informatics Circle of Research Excellence Inc.
Alberta Local Authorities Pension Plan Corporation
Alberta Pensions Administration Corporation
Alberta Petroleum Marketing Commission
Alberta Research Council Inc.
Alberta Securities Commission
Alberta Social Housing Corporation
Alberta Sport, Recreation, Parks and Wildlife Foundation
Calgary and Area Child and Family Services Authority
Central Alberta Child and Family Services Authority
East Central Alberta Child and Family Services Authority
Edmonton and Area Child and Family Services Authority
The Government House Foundation
Human Rights, Citizenship and Multiculturalism Education Fund
Metis Settlements Child and Family Services Authority
Natural Resources Conservation Board
North Central Alberta Child and Family Services Authority
Northeast Alberta Child and Family Services Authority
Northwest Alberta Child and Family Services Authority
Persons with Developmental Disabilities Calgary Region Community Board
Persons with Developmental Disabilities Central Region Community Board
Persons with Developmental Disabilities Edmonton Region Community Board
Persons with Developmental Disabilities Northeast Region Community Board
Persons with Developmental Disabilities Northwest Region Community Board
Persons with Developmental Disabilities Provincial Board (c)
Persons with Developmental Disabilities South Region Community Board
Southeast Alberta Child and Family Services Authority
Southwest Alberta Child and Family Services Authority
The Wild Rose Foundation

Non-commercial Crown-controlled Corporation

Alberta Insurance Council

The following organizations are accounted for on the modified equity basis in these financial statements:

Commercial Enterprises

Alberta Gaming and Liquor Commission
Alberta Treasury Branches
Credit Union Deposit Guarantee Corporation
N.A. Properties (1994) Ltd.

Commercial Crown-controlled Corporation

Gainers Inc.

Non-commercial Crown-controlled Corporation

Safety Codes Council (b)

CROWN-CONTROLLED SUCH SECTOR ORGANIZATIONS (b)

School Jurisdictions

Almadina School Society
Aspen View Regional Division No. 19
Aurora School Ltd.
Battle River Regional Division No. 31
Black Gold Regional Division No. 18
Boyle Street Education Centre
Buffalo Trail Public Schools Regional Division No. 28
Calgary Arts Academy Society
Calgary Girls' School Society
Calgary Roman Catholic Separate School District No. 1
Calgary School District No. 19
Calgary Science School Society
Canadian Rockies Regional Division No. 12
CAPE-Centre for Academic and Personal Excellence Institute
Chinook's Edge School Division No. 73
Christ the Redeemer Catholic Separate Regional Division No. 3
Clearview School Division No. 71
East Central Alberta Catholic Separate Schools Regional Division No. 16
East Central Francophone Education Region No. 3
Edmonton Catholic Separate School District No. 7
Edmonton School District No. 7
Elk Island Catholic Separate Regional Division No. 41
Elk Island Public Schools Regional Division No. 14
Evergreen Catholic Separate Regional Division No. 2
Foothills School Division No. 38
Fort McMurray Roman Catholic Separate School District No. 32
Fort McMurray School District No. 2833

Schedule 16 (continued)

Fort Vermilion School Division No. 52
Foundations for the Future Charter Academy Charter School Society
Golden Hills School Division No. 75
Grande Prairie Roman Catholic Separate School District No. 28
Grande Prairie Public School District No. 2357
Grande Yellowhead Regional Division No. 35
Grasslands Regional Division No. 6
Greater North Central Francophone Education Region No. 2
Greater Southern Public Francophone Education Region No. 4
Greater Southern Separate Catholic Francophone Education Region No. 4
Greater St. Albert Catholic Regional Division No. 29
High Prairie School Division No. 48
Holy Family Catholic Regional Division No. 37
Holy Spirit Roman Catholic Separate Regional Division No. 4
Horizon School Division No. 67
Lakeland Roman Catholic Separate School District No. 150
Lethbridge School District No. 51
Living Waters Catholic Regional Division No. 42
Livingstone Range School Division No. 68
Medicine Hat Catholic Separate Regional Division No. 20
Medicine Hat School District No. 76
Moberly Hall School Society
Mother Earth's Children's Charter School Society
New Horizons Charter School Society
Northern Gateway Regional Division No. 10
Northern Lights School Division No. 69
Northland School Division No. 61
Northwest Francophone Education Region No. 1
Palliser Regional Division No. 26
Parkland School Division No. 70
Peace River School Division No. 10
Peace Wapiti School Division No. 76
Pembina Hills Regional Division No. 7
Prairie Land Regional Division No. 25
Prairie Rose Regional Division No. 8
Red Deer Catholic Regional Division No. 39
Red Deer School District No. 104
Rocky View School Division No. 41
St. Albert Protestant Separate School District No. 6
St. Paul Education Regional Division No. 1
St. Thomas Aquinas Roman Catholic Separate Regional Division No. 38
Sturgeon School Division No. 24
Suzuki Charter School Society
Westmount Charter School Society
Westwind School Division No. 74
Wetaskiwin Regional Division No. 11
Wild Rose School Division No. 66
Wolf Creek School Division No. 72

Schedule 16 (continued)

Universities

Athabasca University
The University of Alberta
The University of Calgary
The University of Lethbridge

Colleges

Alberta College of Art and Design
Bow Valley College
Grande Prairie Regional College
Grant MacEwan College
Keyano College
Lakeland College
Lethbridge Community College
Medicine Hat College
Mount Royal College
NorQuest College
Northern Lakes College
Olds College
Portage College
Red Deer College

Technical Institutes and The Banff Centre

Northern Alberta Institute of Technology
Southern Alberta Institute of Technology
The Banff Centre For Continuing Education

Regional Health Authorities and Other Health Boards

Alberta Cancer Board
Alberta Mental Health Board
Aspen Regional Health Authority
Calgary Health Region
Capital Health
Chinook Regional Health Authority
David Thompson Regional Health Authority
East Central Health
Health Quality Council of Alberta (a)
Northern Lights Regional Health Authority
Peace Country Health
Palliser Health Region

(a) Commenced operations in 2006-07.
(b) In transition period (see Note 1 (b)).
(c) Ceased operations in 2006-07.

GLOSSARY

Absolute return strategies: Absolute return strategies encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Some of the major types of strategies include long/short equity, merger arbitrage, macroeconomic strategies and short selling.

Accrued interest: Interest income that has been earned but not paid in cash at the financial statement date.

Ask price: The price a seller is willing to accept for a security, also known as the offer price.

Asset mix: The major types of investments that make up a portfolio, usually expressed in percentages.

Bid price: The price a buyer is willing to pay for a security.

Call provision: An option included in a bond that gives the bond issuer the right to buy back all or part of a bond issue prior to maturity.

Credit risk: The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Debenture: A financial instrument showing a debt where the issuer promises to pay interest and repay the principal by the maturity date. It is usually unsecured, meaning there are no liens or pledges on specific assets.

Deferred capital contribution: An organization, which follows the deferral method of accounting, has a deferred capital contribution when an external party or a government sector entity contributes funds to the organization for the purchase of a tangible capital asset and the asset has not been purchased at the financial statement date. When the asset is purchased, the amount contributed is transferred to an account called unamortized deferred capital contributions.

Deferred contribution: An organization, which follows the deferral method of accounting, has a deferred contribution when an external party contributes funds to the organization for a specific purpose (other than for a capital item) and the funds remain unspent at the financial statement date. When the funds are used for the specific purpose, the contribution is recognized as revenue.

Defined benefit pension plan: A pension plan that specifies either the benefits to be received by an employee, or the method of determining those benefit, such as a pension benefit equal to two percent of the average of the five highest consecutive years' salary times the total years of service.

Derivative contracts: Financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, currency rates or credit ratings. They usually give rise to a financial asset of one party and a financial liability or equity instrument of another party, require no initial net investment, and are settled at a future date.

Discount: The difference between the price paid for a security and the security's par, or face, value. Because price fluctuates with interest rates, price will differ from the face value. For example, if interest rates are higher than the coupon rate, then the security is sold at a discount.

Emerging markets: The financial markets of developing economies. Examples include China and Brazil.

Fair value: The amount that an asset (or liability) could be bought or sold in a current arm's length transaction between knowledgeable, willing parties, that is, other than in a forced or liquidation sale. It is also known as market value.

Financial asset: An asset that could provide resources to pay liabilities or finance future operations. A financial asset could be cash, a right to receive cash or another financial asset from another party, a right to exchange financial instruments with another party under conditions that are potentially favourable, or equity of another entity.

First-in, first-out: A method of valuing inventory where the cost of the first goods purchased or acquired is the cost assigned to the first goods sold. Therefore, the cost allocated to the inventory items on hand at the end of the period is the cost of those items most recently acquired.

Fixed income instrument: Interest bearing instrument that provides a return in the form of fixed periodic payments and eventual return of principal at maturity, or money market instrument such as treasury bills and discount notes.

Floating rate: An interest rate that is reset periodically, usually every couple of months or sometimes daily.

Hedging: An activity designed to manage exposure to one or more risks. When management designates a hedging relationship, it must identify the specific items included in the hedging relationship, the risk that is being hedged, and the period over which the hedging relationship is intended to be effective. The designation of the hedging relationship is documented formally in the entity's records when designation occurs.

Interest rate risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of future changes in market interest rates.

Leveraging: The use of various financial instruments or borrowed capital to increase the potential return of an investment.

Liquidity: The ability to convert an asset to cash quickly.

Market risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of future changes in market prices.

Net realizable value: The selling price less the estimated costs of completion and costs necessary to make the sale.

Par value: The face or principal amount of a bond, typically expressed as multiples of $100 or $1,000. Bond holders receive par value for their bonds at maturity.

Present value: Today's value of one or more future cash payments, determined by discounting the future cash payments using interest rates.

Private equity: An ownership interest in a privately held company.

Public equity: An ownership interest in a publicly-traded company.

Realized gains and losses: Gains or losses are realized when investments are sold at a price over or below its book value and selling costs.

Refinancing risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate due to refinancing.

Segment: A distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to help users of the financial statements identify the resources allocated to support the major activities of the government.

Temporary investment: Investments which are transitional or current in nature and generally capable of reasonably prompt liquidation.

Temporary loss: Determining when a loss is other than temporary is a matter of judgment, but it is generally presumed if a condition indicating a loss in value has persisted for a period of three or four years.

Unamortized deferred capital contribution: Once an organization, which follows the deferral method of accounting, uses contributed funds to purchase a tangible capital asset, the amount contributed is transferred to an account called unamortized deferred capital contributions. As the tangible capital asset is amortized, the contribution is recorded as revenue.

Yield curve: A graphic line chart that shows interest rates at a specific point for all securities having equal risk, but different maturity dates.

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